# Leitch Technology Corporation
# 2001 Annual Report




# Core Beliefs

**High-quality, real-time videc processing** is both an art and a science. Special attention must be paid to preserving video quality in transmission. Video cannot be regardec as just another data type.

The **customer** is our foundation and focus – listening, understanding, evolving, simplifying, servicing, and leading will ensure our customer's **success**.

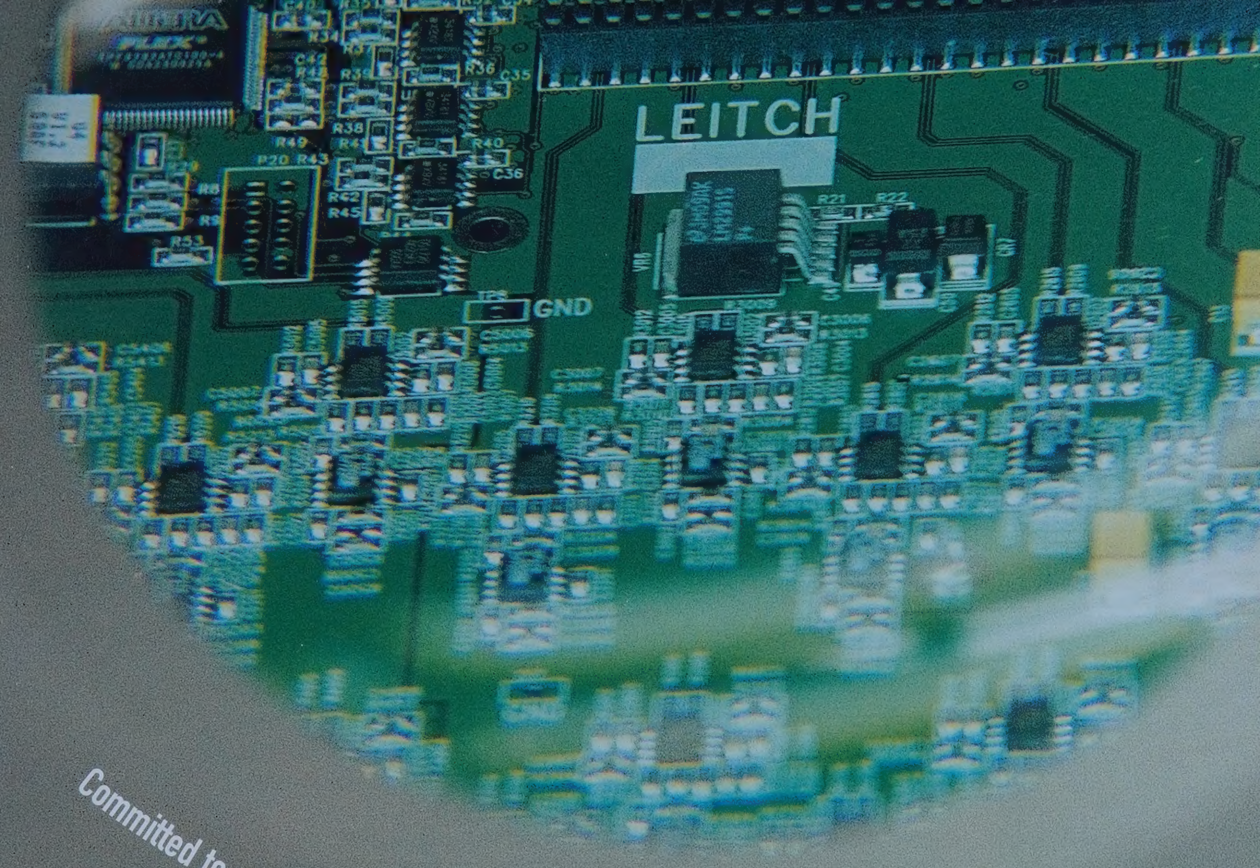
Content is king, but only if it can find its way to the consumer – when, where, and how the consumer chooses. With the trend toward re-purposing for **multiple distribution networks**, we see further integration and consolidation of content creation and distribution.

Video communications will become increasingly mobile and will soon be available on a range of portable and **hand-held devices**. Application-specific semiconductors will be an important enabling technology.

**Broadband technology** will allow video to replace audio and data as the dominant communication medium transmitted over communication networks.

**Integrated circuits and advances in storage** will enable a move away from dedicated hardware toward general-purpose platforms for video processing. The resulting cost reductions will allow high-quality video applications to become more pervasive.

**Video servers – from streaming to digital cinema quality**, with enabling applications and content management – will be the reservoir feeding all video distribution networks.




Committed to our core beliefs, magnified by our vision,
Leitch continues to create essential tools to shape tomorrow's video.

## Message to Shareholders

**2001*, my first full year as president and CEO, has been an exciting and important period in positioning Leitch for growth.** We have made significant strides forward in virtually every part of the company and, at the same time, experienced substantial revenue growth. Having accomplished much of what we set out to do at the beginning of the year, we are now properly positioned for even greater achievement in 2002.

Over the course of the year, we have witnessed a tremendous evolution within our customers' marketplace. During the first few months, their core markets appeared threatened by new entrants to the industry, bringing with them innovative and original methods of video content delivery. By the end of the year, it was clear that our traditional content-producing customer base was also embracing these new delivery methods, along with new methods of producing, storing and transmitting their content.


*John A. MacDonald*

Through this shifting climate, our customers continue to trust Leitch with their valuable content and are relying on us to provide integrated content distribution solutions as these fresh, exciting opportunities unfold.

But change comes with its own set of demands. So in 2001 while we were busy making progress, we were also making preparations. Preparing to do more than simply follow trends. Preparing to be more than just a part of the action. **In 2001, we were preparing to shape the future of video.**

### The Blue Print

The future of video promises to be an era defined by indistinct boundaries, borrowed technologies and shared ideas. Providing an agile response to these new customer developments required parts of our basic strategy to evolve as well.

We began 2001 with five distinct market segments, but over the year it became evident that two of them — Video over IP and Video over Telco — would become key technologies in enabling our core customers to achieve their strategies. Because our core customer base is becoming the driver for these markets, and in order to more accurately reflect our customers' converging marketplace, we realigned Video over IP and Video over Telco initiatives into Video Processing and Distribution. We can now focus more tightly on the positive effects these skills and technologies will have within our traditional Video Processing and Distribution market.

Additionally, many of our new products are IP-enabled and some of our products have achieved Network Equipment Building System (NEBS**) compliance for the telecom domain, all as part of our strategy to provide better service to our evolving traditional customer base, while also expanding into new markets.

*All dates refer to Leitch's fiscal year
**NEBS is a trademark of Telcordia Technologies, Inc.

Adding an impressive new dimension to our business profile, our acquisition of Digital Processing Systems (DPS) during 2001 has resulted in the creation of a Post Production business segment, about which you can read more later on in this report. Accordingly, we move into 2002 with four viable and vigorous market segments: **Video Processing and Distribution, Video Servers, Post Production and Semiconductors.**

Despite the transitioning and sometimes turbulent marketplace, our essential strategy remains the same. We are focused on achieving a leadership position in each operating market segment in order to provide the technology and cash flow necessary to enter new markets. And just as we've done for the last thirty years, we continue to win increasing levels of business by providing excellent customer service and a wide and innovative product line.

## The Best Materials

A bold vision requires more than just a well-honed strategy. So in 2001 we have devoted considerable effort to gathering the necessary tools and resources, building a team that is capable of forging a reality from the vision, and strengthening our presence in the marketplace through unparalleled engineering and resolute initiative.

**Resources** In July of last year, we completed a successful public offering, raising $52.8 million in capital. This move was quickly followed up by the aforementioned acquisition of DPS, an investment which — since completing the integration — has already yielded significant returns from a technological, market and cost perspective, with further refinements expected to contribute greater returns in 2002.

Our investments in research and development, both in dollars and as a percentage of sales, are consistently some of the highest in the industry, and in this aspect, **we have had one of the most productive and focused years ever.**

*Andrew Kun*

**Talent** Over the past twelve months, we have added substantial management strength to the company, thereby broadening the scope of skills within the organization in preparation for a challenging future.

*Bob Hansen*

Our sales team has been enhanced through the addition of Bob Hansen, vice president of sales for the U.S. market. Barry Todd joined us as managing director of our European operations, giving us a strong business leader in that region. John Edwards now heads up our Video Server business segment, while Andrew Kun came on toward the end of the year as vice president of engineering.

*Barry Todd*

Other new additions include Salil Munjal as vice president and general counsel and David Toews as vice president, finance, which allowed us to appoint Gary Clifford to vice president, corporate development, thereby strengthening our capabilities in the area of mergers and acquisitions. The integration of DPS also added talent to our team and was highlighted by the addition of Brad Nogar

heading up our new Post Production business segment. Finally, Margaret Craig's responsibilities were expanded as she took on her new role as chief operating officer.

This richly enhanced management team is fully prepared to lead our company, as our company continues to lead the industry.

**Innovation** The world was able to preview the future of video at the 2001 National Association of Broadcasters convention in Las Vegas, as we launched a number of new products, many of which will be available for shipping by September.

**Each of our operating businesses showed products that received significant industry fanfare**, including our new VR-475 integrated non-linear editor and VR-445 self-contained, entry level server; NEO™, our new video processing platform for the future; new versions of our DPS non-linear editor; and CCS, our innovative command and control system.

Also causing a stir was how rapidly we incorporated DPS technologies into our mainstream products, as evident in our new still and clip store product, MediaFile™. In addition, our customers were impressed by the seamless integration of DPS' Reality™ and NetStreamer™, along with our new slow motion product, Whiplash2™, into our traditional news offering.

At the close of a year marked by considerable progress and preparation, we now stand ready to carve out an exciting and successful future.

## The Emerging Picture

And how do we see the future of video?

**We firmly believe that the future of our industry and that of Leitch is extremely promising.** Video remains the killer application, and our customers are poised to lead the way. New technologies will allow them to reach more viewers with an enriched viewing experience, while also improving productivity. And with improved productivity, our customers will be able to focus on their key strength — creation of compelling video content.

The broadcaster of the future will look very different from the broadcaster today. The means of creating, editing, distributing and storing video will change dramatically, and our customers are looking to partner with dependable, innovative suppliers to help them capitalize on the exciting new opportunities.

With our solid, thirty-year reputation for outstanding customer service and engineering excellence, we will continue to be a significant partner as the broadcast industry traverses a new roadmap.

## The Future Unveiled

**Profitability will be a primary focus for the company over the next year.**

In 2001, our efforts were directed toward strengthening the top line, while investing in new and exciting markets to expand our revenue base. Despite the fact that these investments reduced our profit for 2001, we have emerged as a much stronger company with revitalized product lines, an outstanding team and new revenue areas.

In 2002, our current revenue base will allow us to build on these successes with a renewed emphasis on profitability. At the same time, our installation of an Enterprise

Resource Planning System (ERP), which will replace the myriad of systems that exists today, will establish a solid base for improving customer service and productivity.

In addition, I have charged our management team with reviewing all of the operations of the company to ensure that we are effective and efficient, while still continuing to improve our customer service. With these initiatives firmly on track, we will continue to achieve profitable growth.

## In Closing

On a different note, we are saying goodbye at this year's annual general meeting to Garry Newhook, vice president sales for Canada and South America. Beginning with the company in 1973 in our service department, Garry has been highly instrumental in the success of the company as he worked his way up through the organization. We wish Garry all the best and thank him for his consistent hard work and loyalty.

*John A. MacDonald*

Finally, I would be remiss in not thanking all of my fellow employees for their dedication and willingness to explore new areas over the last year. We have taken many unfamiliar steps together, and I have found that the desire that exists within the company to retain its leadership role fuels a readiness to continuously explore new technologies and ways of doing business. With that attitude, I believe that we are headed into another year of unprecedented success.

I hope to see many of you, our shareholders, at this year's annual meeting so that I can thank you personally for your confidence and support over the past year. We look forward to providing you more information as we progress with the belief that we are building a world-class company at Leitch. **A company capable of shaping the future of video.**

John A. MacDonald

**John A. MacDonald**
President & Chief Executive Officer


Leitch has the skill and vision to shape the face of video

## Overview

### Shaping the future of video.

These words might seem to set quite a high standard. But actually, these words simply describe what it is we've been doing for the last thirty years. Because at Leitch, shaping the future of video is our business.

Certainly the industry landscape is changing, but that is par for the technological course. And Leitch would not have thrived for three decades in a continuously evolving marketplace without possessing an incisive, finely tuned vision.

That vision has inspired us to design products and systems that consistently lead against formidable competition. That vision has allowed us to forge a brand name that is uniquely respected across the professional video infrastructure industry. And as a result of that unwavering vision, Leitch innovation is now tightly woven throughout the intricate and colorful video marketplace.

Our company mission is, simply, to be the leading global supplier of high-quality video solutions. An ambitious goal? Perhaps.

But for a company that possesses boundless imagination, the necessary intellectual property and a forward-thinking creativity that touches every contour of the industry, the opportunities are limitless.

Today, in every arena where video communication is occurring — from years of Olympics coverage, to fast-breaking global news stories, to the entertainment of audiences in even the most remote areas of the earth — Leitch is there. Through our vast team of local distributors and regional sales managers located in every corner of the globe, Leitch now supplies its products to customers in more than 75 countries worldwide.

Despite standing center stage in this constantly evolving, global marketplace and in spite of the all too familiar volatility of the financial markets, Leitch has managed to achieve three decades of sustained, profitable growth by maintaining an exceedingly simple strategy: Always remain 100% focused on the customer.

This very basic philosophy underlies every decision Leitch makes. It's the reason we consistently invest so much into R&D — historically between 10% to 15% of total revenue — and the reason that our customer service always places within the highest ranks of our industry.

But ultimately, remaining focused on the customer provides us with indispensable insight, from which we are able to draft the appropriate plans, design the proper framework, tailor the fine details and eloquently shape the future of video.

In the past year, we broadened our industry presence by moving beyond former boundaries, beyond traditional markets and, above all, by providing integrated systems beyond the box. Chiseling a stronger European niche with a new office opening in France, obtaining NEBS™ compliance on products for the telco market and unveiling comprehensive network communications products like our new Command Control System™, all worked to effectively extend our industry reach.

At the same time, we worked to consolidate operations and narrow our focus in other areas in order to improve our effectiveness and efficiency. 2001 saw a strategic restructuring of our sales force, as we designated several of our most experienced managers to target vertical markets. By tightly focusing their skills and energies on specific areas such as telco/cable and servers, we will be able to more aggressively seek new opportunities, form stronger relationships and improve customer service for both new and existing customers.

In Canada and the United Kingdom, we established new offices in order to create a more cohesive and efficient organization. The move to centralized locations in Toronto and Bracknell has resulted in vastly improved communication, morale and operational efficiency. At the same time, we were able to expand our main production facility in Toronto, allowing us to integrate our DPS and European plants and shape our unique, in-house manufacturing into a centralized, coherent operation.

With new products, new offices and a well-established reputation within the industry, Leitch continues to attract and retain the very best talent the market has to offer. In 2001, the new product developments of a highly skilled, results-oriented engineering team, along with shrewd acquisitions and partnerships forged by strong managerial talent, have strengthened our core markets and allowed us to effectively translate our vision to an ever-widening audience.

| FOUR BUSINESS SEGMENTS | EXISTING PRODUCTS |
|---|---|
| **VIDEO PROCESSING AND DISTRIBUTION**<br><br>The electronic infrastructure necessary to process, route and interface all types and standards of the world's video signals inside post-production and television facilities. | **Signal distribution and routing** — e.g. Integrator™<br>**Conversion and interface systems** — Digital Glue® (6800 Series), Genesis™, DigiBus® and the new NEO™ line<br>**Networked control software** — Command Control System™<br>**MediaFile™**<br>**WhipLash2™** |
| **VIDEO SERVERS**<br><br>Leitch video servers store compressed video on a RAID-protected disk array, providing instant access to content. Leitch is focusing on news and sports markets. | **M-JPEG Server** — VR300™<br>**MPEG-2 Server** — VR440™, VR445<br>**Non-Linear Editing** (NLE) — VR-465 NEWSFlash-II™, VR-475 NEWSFlash-II FX™<br>**VR WAN™ Gateway**<br>**VR-DVD RAM Archive™** |
| **SEMICONDUCTORS**<br><br>SiCon Video Corporation designs and expects to sell multimedia-processing semiconductors that enable the conversion, processing, transport and management of high-quality graphics, video, and audio over any type of local or wide area network.<br><br>Multimedia over any network. Enabling the ubiquitous transport of any media stream over any data network is SiCon's mandate. | **Helix** — Programmable media processor created for the video and audio communications transport market.<br>**Irondale** — RGB A/D and D/A conversion for products designed for the digital conversion market.<br>**Broadcast Series** — Designed primarily for Leitch's internal use in cost-reducing its various product lines.<br>BIO™ — SD/HD video processing<br>VDSP — Audio and video synchronizer<br>Basic — Composite decoder |
| **POST PRODUCTION**<br><br>Products for the manipulation of source video, film or animation footage into a finished form for broadcast or distribution via film, video, DVD or Internet Web streaming. | **dpsReality™** — Studio Digital Disk Recorder<br>**dpsVelocity™** — Non-linear editing system<br>**dpsRealityHD** — HD/SD post production system<br>**dpsNetStreamer™** — Web streaming<br>**dpsQuattrus™**— NLE hardware platform |


Leitch provides the array of digital tools necessary to shape intricate video

**Margaret Craig**
Chief Operating Officer

## Video Processing & Distribution

*Leitch video processing and distribution products provide the electronic infrastructure necessary to manipulate and route any video signal within telco, post production and television facilities, as well as the downstream distribution networks that carry the content to viewers across the globe.*

Leitch remains a leader in our core market of providing video distribution, processing and conversion products to the professional video infrastructure world. This has been demonstrated by further revenue growth during 2001. With our unique, in-house manufacturing capabilities, we continue to be highly responsive to customers who have come to count on Leitch for reliable, innovative systems and products, which are also backed up by superior service and support.

Development of these specialized products requires a broad knowledge of video technology, a firm grasp of the real-world complexities of broadcast facilities and a genuine feel for the workflow of the highly skilled people who create broadcast content. This is the expertise that sets Leitch apart and has led to the development of such highly successful product lines as **DigiBus®, Genesis™ and the 6800 series.** Having moved beyond industry acclaim to actually setting the industry standard, these market-leading platforms have turned our **Digital Glue®** marketing designation into a generic term used industry-wide to describe the digital processing required to convert between analog and digital video formats.

In 2001, our refocused R&D efforts began to bear fruit as we previewed and launched new products to an enthusiastic response from the industry. Undertaking a major reshaping of our processing platforms resulted in the introduction of our highly anticipated, next generation video platform, **NEO™**. Incorporating the latest in digital hardware techniques, NEO's processing products will offer customers more compact, feature-filled functions and greater interconnectivity with all types of distribution systems including IP and telco networks. In addition, the NEO platform will address competitive positioning issues and allow for innovative product expansions that extend far beyond our traditional product offerings.

Creating a marriage of hardware and software innovation, NEO takes full advantage of our revolutionary new **Command Control System**™ software, which provides flexible and comprehensive real-time, centralized control and monitoring. The Leitch Command Control System (CCS) provides open and scalable access via standard protocols (TCP/IP, HTML and Serial) to all components within a networked system. CCS includes both local and remote hardware panels and Windows®- and browser-based applications.

At NAB 2001 in April, we introduced our first CCS software application, Windows®-based **Pilot**™, which contains all the tools necessary for networked monitoring and control of Leitch and third-party equipment, even in geographically dispersed facilities. Also showcased was **Portal**™, an application with similar capabilities to Pilot, which has the potential to turn any fixed or wireless Internet-enabled device into a powerful, centralized monitoring and control tool. With centralized control fast becoming a vital element in all video infrastructures, the ability to interface with other manufacturers and an array of control software standards will make CCS the ideal choice for customers.

By strengthening our focus on the core products within our Video Processing and Distribution market, our router business has been revitalized based on our innovative approach to distributed routing. **Blue**³, a hardware and software innovation incorporated into the Integrator™ router series has effectively expanded the size of router systems available within the Leitch offering, but has also set a standard within the industry for redundancy, with its ability to automatically trigger rerouting of interrupted critical signals. Additionally, with the Integrator achieving NEBS™ compliance, a measure of network product excellence and a safety standard within the telecom industry, our routing business is well positioned to launch beyond its traditional boundaries into promising new markets.

In 2001, the successful integration of DPS to our traditional offering has boosted Leitch to a leadership position in the area of frame synchronizers, which are vital building blocks in television systems of all kinds. Linking the phenomenal **DPS-475** digital processing frame synchronizer with its "anything in — anything out" capability to the highly effective Leitch sales and distribution system has created a major market-capturing opportunity. With its market penetration ranging from major broadcast facilities to small stations, the DPS-475 has underscored the need for reasonably priced, high-quality processing and conversion between analog and digital signals.

Blending technologies from Leitch and DPS has already resulted in the development of two promising new products. **MediaFile**™, a still and video clip server for use in newsrooms, can be used to expand Leitch StillFile® systems currently in the field and will work to revive sales in the still store market. **Whiplash2**™, a multi-camera slow

motion sports system used in both live sportscasts and sports training, opens up an array of new sports markets from high schools to all major league sports. Both will be brought to market as feature-packed offerings with excellent value propositions.

Rounding out our solid core product offering and addressing current and future high definition requirements, our **Opus**™ master control now features enhanced effects capability and consistently draws positive customer response. Opus integrates seamlessly with our servers, routers, NEO and CCS, enabling Leitch to provide our customers with the complete systems they increasingly require.

Leitch will continue to focus on our core customers and revitalize our flagship product lines in order to maintain our position as the market's leading supplier of Digital Glue. At the same time, we will continue to address forward-thinking issues such as HDTV, centralized control, diverse distribution protocols and specific concerns of new markets to move "beyond the box" and ensure that tomorrow's customer can always rely on Leitch.


Leitch shapes the vessels that store and deliver video

**John Edwards**
Vice President and General Manager for Video Servers

## Video Servers

*Delivering a high level of scalability and reliability, Leitch video servers are based on pioneering shared storage architecture, which allows for instant access by all users to all content and has been adopted by broadcasters worldwide.*

During 2001, we witnessed many developing technology trends within the marketplace, which are producing new opportunities for growth. The industry has continued its migration from tape-based playout to server-based systems and accelerated its adoption of digital news systems. The concept of distributed news (editing and distribution via data networks) is gaining ground, and media asset management has received significantly increased industry focus. Continued consolidation within the market has resulted in customers exploring alternative approaches such as a central casting model.

To take full advantage of these dramatic industry developments, Leitch bolstered the server team with talented management additions in operations and marketing and established improved product development practices. And while these moves bode well for the company's future prosperity, they also worked to make 2001 a year of fulfilled product promises made in 2000 to our invaluable customers.

Effectively reducing the cost of transition for small to medium broadcast facilities in moving from tape-based to transmission playout server products, while also providing an upgrade path to a full-shared storage system, our **VR445** entry-level server was introduced during NAB 2001. This self-contained, two-channel server uses internal SCSI drives to provide up to 20 hours of video storage and features all the benefits of Leitch's innovative VR Technology™. The affordable yet powerful VR445 is also ideal for time-delay and high-end applications currently filled by digital disk recorders.

Complementing the significant flexibility of our popular **VR440** server with an opportunity for cost savings, Leitch added play-only versions to the mix in 2001. This addition ensures that all our core customers can obtain a tailor-made system to meet their financial, operational and security needs.

Further intensifying the attack on the cost of entry into digital news production, Leitch launched the compact **VR-DVD RAM Archive** system at NAB in

April. Providing cost-effective archiving of short form content (such as news) for owners of Leitch VR® video servers, this product dramatically lowers the overall system costs incurred in an operation's transition to digital. Customer awareness of DVDRAM-based archiving has increased sharply this year, with the new Leitch system commanding significant attention across the industry from broadcasters considering central casting to non-broadcast archival customers with varying video applications.

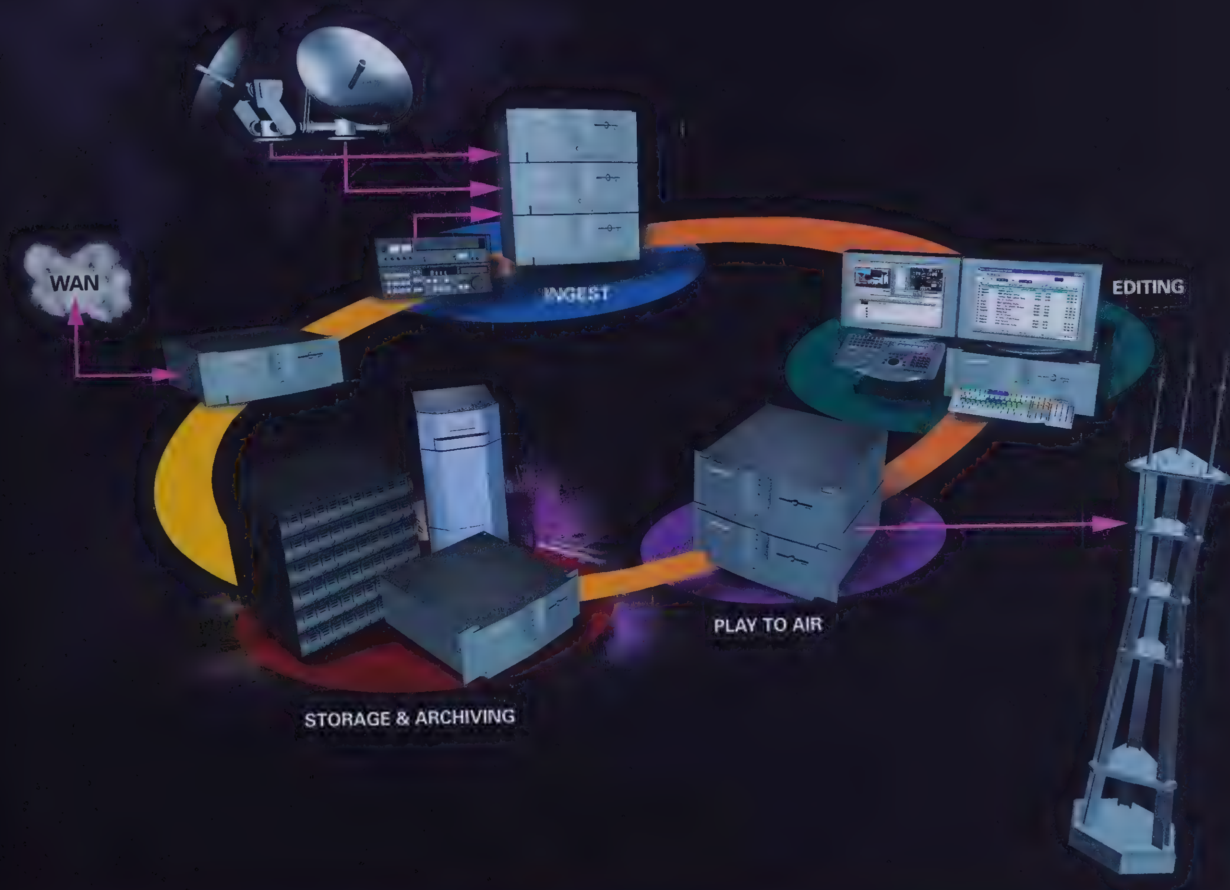
2001 also brought about a major achievement in our newsroom offering, as we met our customers' requirement for increased quality and capacity of available storage by completing the transition from MJPEG to MPEG server systems. Leitch's **NEWSFlash-II™**, our server-integrated non-linear editor addresses DV/MPEG editing and expands upon the capabilities of the original MJPEG version with its array of powerful new features. To provide organizations with maximum flexibility in their conversion to digital news production, our new non-linear editor will be offered in two versions — the entry level **VR-465 NEWSFlash-II™** DV/MPEG2 editor and the full-featured **VR-475 NEWSFlash-II FX™** DV/MPEG editor.

Along with meeting the requirements of our core customers, Leitch also spent 2001 developing significant platform enhancements, in order to maintain our competitive leadership position across the industry and into the future.

Toppling geographical barriers, Leitch launched its **VR WAN Gateway**, which performs high-speed transfers of recorded content across the room or across the globe. Using standards-based MPEG transport stream technology, the VR WAN Gateway shuttles compressed content between multiple Leitch server systems across any network at speeds many times real time.

Representing a leap forward in high-performance storage for mission-critical broadcast news environments, Leitch adopted higher density disk drives to create shared storage drive arrays that deliver over 7 terabytes of fibre channel storage. We also developed our VR Technology to accommodate larger channel-count systems — moving to 44 channels and above — through architecture enhancements and use of fabric switched topology.

As the industry continues to evolve, converge and complete the migration to digital, Leitch will not be content to simply exist in the emerging video marketplace. Instead, we will actively shape the future of video by anticipating and meeting our core customers' needs and extending our world-class customer service and cutting-edge, packaged solutions across new markets and across the globe.


WAN
INGEST
EDITING
PLAY TO AIR
STORAGE & ARCHIVING


Leitch provides the power to shape content into finished video

**Brad Nogar**
Vice President and General Manager for Post Production

## Post Production

*Leitch post production supplies products for the manipulation of source video, film or animation footage into a finished form for broadcast or distribution via film, video, DVD or Internet web streaming.*

With the acquisition of DPS in October 2000, Leitch instantly gained a presence in the post production hardware and software market. DPS' outstanding reputation for innovation in the area of digital video creation and processing has been frequently recognized by the industry, with honors including an AV Video Platinum Award in 1999 and an Emmy® Award for Outstanding Achievement in Television Technology for the DPS Perception® Video Recorder in 2000.

The Leitch Post Production product line provides innovative and flexible hardware and software solutions for editing, animation, compositing, special effects, real-time web video streaming (including live web broadcasting) and DVD content creation.

Our DPS™ post production products are economical enough for use in creating corporate, educational and industrial videos, while powerful enough to be the preferred choice for film and video post production facilities, major television networks, television stations and cable companies worldwide.

In 2001 we began shipping version 7.5 of our flagship non-linear editing system, **dpsVelocity**™, designed with a wide array of new features focused on technical advances as well as our customers' workflow. Featuring our dpsNetStream technology, dpsVelocity 7.5 enables provides a seamless bridge between post production for video and that for "new media" such as the Internet and DVD.

The workflow involved in creating effective web and DVD content is a similar (and more expansive) process to that used in creating content for television and videotape. As the web and DVD markets embrace traditional production fundamentals and methods, Leitch will continue to hold a long-term competitive advantage over companies that provide only niche tools.

At NAB 2001 in April, we previewed the forthcoming version 8.0 of dpsVelocity, with further enhancements that will enable us to continue gaining market share and moving into even higher-end markets.

Also demonstrated at the convention was an assortment of new products built around our popular **dpsReality**™ Studio Digital Disk Recorder, including **dpsNetStreamer**™, an easy-to-use, expandable web streaming encoder, ideal for broadcasters and other customers needing to convert live video instantly into multiple simultaneous web streams.

**dpsQuattrus**™, our next-generation non-linear editing hardware platform featuring significant technical advantages over competing products and providing flexible product spin-off potential and OEM opportunities, was also introduced at NAB 2001.

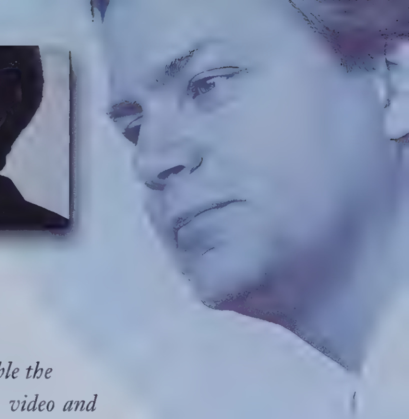
As broadcasters continue to move toward HDTV and high-definition video becomes a viable alternative to film, we are prepared to take advantage of the tremendous market opportunity that exists for cost-effective solutions to ease the transition with our new **dpsRealityHD**. Featuring a workflow that enables customers to produce for HD, SD, DVD and the Internet in parallel, the dpsRealityHD will begin shipping by fall 2001.

Another important facet of our Post Production product line is our 50% ownership of eyeon Software, developers of the Digital Fusion line of compositing and special effects software. Digital Fusion has been recently used for many of the key special effects sequences in a wide array of major feature films. Our most recent product releases, including dpsVelocity and dpsRealityHD, feature tight integration with eyeon's products, bridging the gap between editing and compositing — two related yet previously distinct elements of the post production process.

The Leitch Post Production group has a key sustainable advantage over our competitors in this market in that the majority of our competitors for post production products design and manufacture either hardware *or* software and must form strategic partnerships with independent companies in order to create complete solutions. Because we produce both the hardware *and* the software, we are able to develop very tightly integrated solutions and also update our products quickly and dynamically as the market changes.

This, combined with our vast expertise and technically advanced products, puts Leitch in an excellent position to continue, and expand, our success in the post production market.

Leitch possesses the artistry to shape silicon for specialized video



**Ed Hacker**
President of SiCon Video Corporation
Vice President/General Manager, Semiconductors

## Semiconductor

*SiCon Video designs and sells multimedia-processing semiconductors that enable the conversion, processing, transport and management of high-quality graphics, video and audio over any type of local or wide area network.*

Boasting tremendous experience in multi-media signal processing and semiconductor design, a leading-edge R&D department and strong relationships with potential OEM customers, SiCon is developing products that will allow manufacturers to shorten their time to market, reduce their costs and stand out from their competition.

Unlike providers that focus on low-end, mass-market consumer equipment manufacturers, SiCon products are being designed to meet broadcast-quality specifications and prosumer demand. Potential customers for SiCon semiconductors include manufacturers of the following types of equipment: Video over IP and Video on Demand (VoD) for the telco/cable market; multi-residential gateway; residential and commercial wireless LAN; and digital broadcast.

SiCon designs are concentrated in three broad categories of product: **Helix**, **Irondale** and **Broadcast Series** devices. Additionally, SiCon continues to generate revenue developing custom solutions for large clients as part of our Contract operations and plans to introduce new semiconductors to the market this year.

### Helix

Helix VDP will be a comprehensive and high-performance media processor created for the video and audio communications transport market. Incorporating four of the critical elements of $V^2$oIP™ applications into one device, Helix is expected to support onboard processing, MPEG II/IV compression, video equalization and pre-filtering and IP layer protocol. With programmable features and solid functionality, Helix will allow equipment manufacturers to reduce their time to market and differentiate their products from their competition. Additionally, equipment manufacturers will not need to redesign their products around Helix or its successors, encouraging rapid market acceptance.

## Irondale

The Irondale product is designed to be a high-quality RGB analog/digital and digital/analog conversion product. This single device simultaneously converts three data streams (compared to most others which need one per stream), has a sampling rate of 10 bits at 150Mhz, consumes only 50 mWs of power (versus 200+ mWs for competitive ADCs), and is made using a .15 um process. Irondale can also be sold as an IP block and provides unmatched price and performance value for manufacturers requiring advanced video conversion.

## Broadcast Series

Currently nearing completion is SiCon's mature suite of high-quality, application-specific devices designed for equipment used in production and broadcast environments such as television station newsrooms and studios and cable company broadcast centers. SiCon possesses a unique advantage in the marketplace with its integrated form factor, which reduces complex FPGA-based systems to a single IC. These Broadcast products — which include converters, synchronizers, and equipment for HDTV broadcasts — will be used primarily by Leitch to cost-reduce its various product lines.

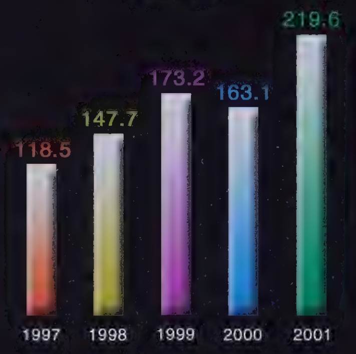
## Contracting Services

Having had close contact with the industry since 1982, SiCon's contracting division continuously provides the R&D team with new market data and customer leads for new products. With the worldwide shortage of experienced semiconductor designers, due in part to consolidation of the market by larger ASIC developers, SiCon anticipates a continued strong demand for its consulting services.

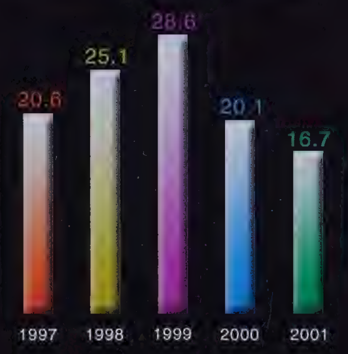
Although the global market for integrated circuits is expected to see a slight decline this year as manufacturing activity shifts from PCs to multimedia equipment, it is forecasted to be flat in 2002. By 2004, the market for semiconductors used in digital media equipment is projected to expand significantly, and SiCon is well positioned to play a vital part within this industry.

# AT A GLANCE

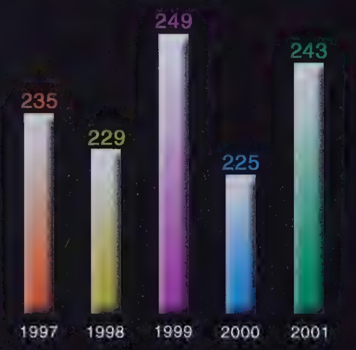
## Revenue
in $ millions



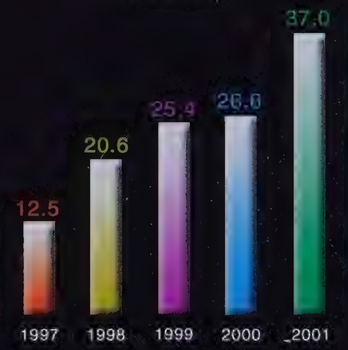

## Net Operating Income
in $ millions



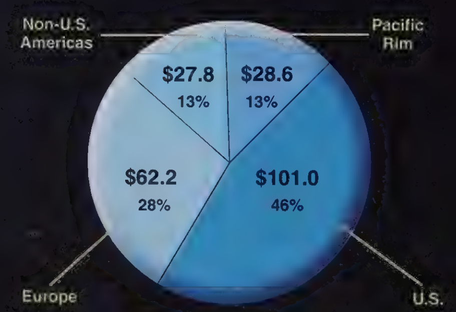

## Revenue per Employee
in $ thousands



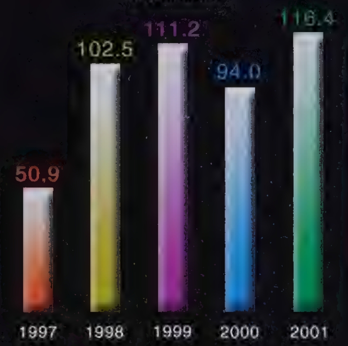

## Gross R & D
in $ millions



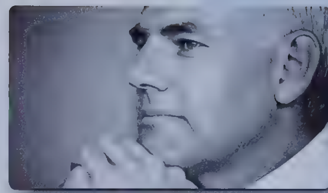

## Revenue by Geographic Region
in $ millions




## Working Capital
in $ millions



Reginald J. Tiessen
Chief Financial Officer



# MANAGEMENT'S DISCUSSION & ANALYSIS

**The following is Management's Discussion and Analysis of the financial condition of Leitch Technology Corporation ("Leitch" or the "Company") and our financial performance for the years ended April 30, 2001 ("2001"), 2000 ("2000") and 1999 ("1999"). This discussion should be read in conjunction with the Company's 2001 Audited Consolidated Financial Statements and accompanying notes. All amounts are in Canadian dollars unless otherwise stated.**

This annual report contains forward-looking statements that involve risk and uncertainties. These statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "plans," "continue," or the negative thereof or other variations thereon or comparable terminology referring to future events or results. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous factors. These factors include without limitation the timing of acquisitions and expansion opportunities, technological change which may impact the Company's capital expenditures and results of operations, and competitive factors which may alter the timing and amount of the Company's capital expenditures. Any of these factors could cause actual results to vary materially from current results or the Company's currently anticipated future results. The Company wishes to caution readers not to place undue reliance on such forward-looking statements that speak only as of the date made. Additional information concerning factors that cause actual results to materially differ from those in such forward-looking statements is contained in the Company's filings with Canadian and United States securities regulatory authorities.

## *Overview*

Leitch provides leading-edge solutions to store, switch, distribute, convert, edit, stream and otherwise process high-quality audio and video signals. Applications for Leitch products span the broadcast, post production, telecommunications, cable and Internet markets.

Leitch's main operating segments are Video Processing and Distribution ("VP&D"), Video Servers ("Servers"), Post Production ("Post") and Semiconductors. VP&D includes products that are used to distribute, process and switch high-quality video and audio signals. The Servers segment designs, manufactures and sells video servers. At the time of the Digital Processing Systems, Inc. ("DPS") acquisition, management of Leitch began to evaluate Post as a separate operating segment. Post includes products that are used to capture, edit and record digital video. The Semiconductor segment is developing the next generation multimedia chips for the professional video infrastructure market and prosumer marketplace, while continuing chip development efforts with the stated goals of reducing the cost of Leitch manufactured products.

At the time of acquisition of DPS, Leitch realigned its video over telco/cable and video over Internet protocol initiatives announced last year to VP&D. The Company recognized that the breadth and depth of its comprehensive VP&D product line, enhanced by DPS products, provides advanced solutions for customers operating in these markets.

The Company's strategy is to capitalize on its strong customer position, technical skills, business model and access to capital markets to lead the professional video infrastructure market. Leitch expects to position itself to become a significant player in broader markets as video continues to evolve as a dominant form of communication and pursue strategic investments of resources and capital into industry consolidation and emerging markets.

### Acquisitions and Investments

On October 12, 2000, Leitch completed the purchase of DPS, a Toronto-based provider of broadcast and post production hardware and software. DPS is a recognized market leader in the development of hardware and software products that facilitate the creation, manipulation and dissemination of broadcast-quality video and audio content. DPS brings to Leitch strong complementary products and significantly expands the Company's post production capabilities. Consideration for the purchase of DPS totaled $86.3 million, which was comprised of $40 million cash, issuance of common stock valued at $43.9 million and acquisition costs incurred of $2.4 million. Leitch has substantially completed its integration of DPS.

On September 20, 2000, Leitch purchased a 12.5% equity interest in Fastvibe Corporation for cash consideration of $3.7 million and received an option to purchase an additional 22.5%. Fastvibe is an early-stage company that is developing end-to-end video streaming and content management solutions. Fastvibe's business plan is to become an innovative, leading Video Service Provider ("VSP").

## Highlights

In addition to the acquisition of DPS and strategic investment in Fastvibe, major developments for the Company over the past year include:

- *Closing a bought deal equity financing that raised gross proceeds of $52.8 million. The proceeds have been used to fund the acquisition of DPS and infrastructure growth.*
- *Being awarded a United States patent on the video data storage architecture used in Leitch's VR300 and VR400 server product lines.*
- *Being selected to provide a significant amount of broadcasting equipment to the Sydney 2000 Olympic Games. This marks the seventh consecutive Olympic Games to which Leitch has been a significant supplier.*
- *Commencing the global implementation of an Oracle Enterprise Resource Planning system. The adoption of this technology is expected to streamline and update many of Leitch's business practices.*
- *Consolidating of factory locations from two in Toronto, Ontario and one in London, U.K. to one Toronto, Ontario location.*
- *Achieving overall top line growth of 35% and Servers top line growth of 27%*
- *Introducing new products, including VR445, NEO™, VR475, dpsVelocity™ 7.5, and Command Control System™*

Significant management promotions and appointments made by Leitch over the past year include:

- *Margaret Craig promoted to the position of Chief Operating Officer*
- *John Edwards appointed as Vice President and General Manager, Video Servers*
- *Brad Nogar promoted to the position of Vice President and General Manager, Post Production*
- *Andrew Kun appointed as Vice President, Engineering*
- *Robert Hansen appointed as Senior Vice President, US Sales*
- *Barry Todd appointed as Managing Director of European Operations*
- *Salil Munjal appointed as Vice President and General Counsel*
- *Gary Clifford promoted to the position of Vice President, Corporate Development*
- *David Toews appointed as Vice President, Finance and Administration*

## Consolidated Results of Operations

### Definitions

The Company focuses its analysis on "Net Operating Income." Net Operating Income is calculated as earnings before amortization, equity interests and goodwill less income taxes (excluding income tax recovery — partly owned businesses). Net Operating Income was $16.7 million, $20.1 million and $28.6 million in 2001, 2000 and 1999 respectively.

### Revenue

Revenue totaled $219.6 million, $163.0 million and $173.2 million in 2001, 2000 and 1999 respectively. Revenue in 2001 increased $56.6 million or 35% from 2000. Revenue in 2000 decreased $10.1 million or 6% from 1999. In 2001, revenue increased in all geographic markets and major product lines due to the acquisition of DPS, successful sales efforts in the Pacific Rim and general across-the-board growth.

### Product Revenue

The company generated approximately 73% of its revenues from VP&D, 19% from Server and 8% from Post Production, a new segment arising on acquisition of DPS. Revenue from VP&D grew from $128.1 million in 2000 to $159.4 million in 2001, an increase of 24%, compared to an 11% decline in 2000 from 1999 revenue of $144.5 million. Revenue from Servers grew from $33.1 million in 2000 to $42.0 million in 2001, an increase of 27%, compared to a 22% increase in 2000 from 1999 revenue of $27.1 million. Revenue from Post was $16.8 million for 2001.

### Geographic Revenue

The Company generates approximately 46% of its revenues in the United States, 28% in Europe, 13% in Pacific Rim and 13% in Non-U.S. Americas. Revenue increased in all geographic regions from 2000 with particularly strong growth in the Pacific Rim. Revenue in the Pacific Rim grew from $15.6 million in 2000 to $28.6 million in 2001, an increase of 83%, compared to the 51% increase in 2000 from 1999 revenue of $10.3 million. Europe led revenue growth outside of the Pacific Rim at $62.2 million in 2001 versus $44.0 million in 2000, an increase of 41%, compared to the 3% decline in 2000 from 1999 revenue of $45.2 million. Revenue from the Non-U.S. Americas grew from $20.7 million in 2000 to $27.8 million in 2001, an increase of 34%, compared to the 24% decline in 2000 from 1999 revenue of $27.1 million. The United States had revenue growth from $82.8 million in 2000 to $101.0 million in 2001, an increase of 22%, compared to a decline of 9% in 2000 from 1999 revenue of $90.7 million. Revenue growth is primarily attributable to general strength across all product lines in all regions and the DPS acquisition.

### Gross Margin

Gross margin as a percentage of sales declined to 55% in 2001, from 58% in 2000 and 61% in 1999. The decline in margin is mainly related to product sales mix, increased competition in core markets and the acquisition of DPS. DPS margins are in the 51% range.

### Research and Development

Investment in research and development ("R&D") in 2001 was $33.3 million or 15% of revenue, up from $23.1 million or 14% in 2000 and $22.3 million or 13% in 1999. The Company is a leading supplier to its customers and operates in a highly competitive industry. In order to maintain market leadership, Leitch aggressively invests in new R&D initiatives and enhancements to existing products. In 2001, the Company announced a number of new products including NEO, a modular interface series; the VR400 server line with advanced non-linear editing systems; the dpsWhiplash2™, a slow-motion instant replay system; and the dpsNetStreamer™, an expandable, professional multiple web stream encoder.

The increased investment level in 2001 relates to DPS R&D, semiconductor development costs and increases in staffing costs as the Company aggressively moved to hire and retain top R&D management and staff.

The Company operates R&D facilities in Canada, the United States, the United Kingdom and Sweden.

### Selling and Administrative Expenses

Selling and administrative expenses totaled $64.6 million, $43.1 million and $40.7 million in 2001, 2000 and 1999 respectively. Selling and administrative expenses increased by $21.5 million or 50% in 2001 over 2000. Selling and administrative expenses increased by $2.4 million or 6% in 2000 over 1999. As a percentage of sales, selling and administrative expenses were 29% of sales in 2001, compared to 26% of sales in 2000 and 24% of sales in 1999. The primary factors that contributed to the increase in sales and administrative expenses in 2001 were the acquisition of DPS; new initiatives, including video over telco/cable and video over IP; additions to the management team; and costs related to the new office space in Toronto, Ontario and London, U.K.

### Income Taxes

The Company evaluates income taxes using income taxes (excluding income tax recovery — partly owned businesses) as a percentage of earnings before amortization, equity interests and income taxes. The Company's effective tax rate was 31.3%, 31.3% and 34.1% in 2001, 2000 and 1999 respectively.

Income taxes totaled $5.5 million, $9.2 million and $14.8 million in 2001, 2000 and 1999 respectively. The Company's effective tax rate under Canadian GAAP increased to 70.3% in 2001 compared to 34.6% in 2000 and 36.1 % in 1999. The primary reason for the increase was that the amortization of goodwill and the equity interests in loss of partly owned businesses reduced earnings before income taxes for accounting purposes but not for tax purposes.

### Net Operating Income

As a result of the factors discussed above, Net Operating Income (as defined above) decreased by 17% in 2001 to $16.7 million, compared to a 30% decrease in 2000 to $20.1 million from $28.6 million in 1999. Basic Net Operating Income per share declined 25% to $0.59 compared to a 28% decline in 2000 to $0.79 from $1.09 in 1999.

### Amortization of Goodwill and Acquired Technology

Amortization of goodwill and acquired technology increased by 200% in 2001 to $7.5 million compared to a 4% increase in 2000 to $2.5 million from $2.4 million in 1999. The increase resulted from the acquisition of DPS.

### Equity Interests in Loss of Partly Owned Businesses

Equity interests in loss of partly owned businesses increased by 2,900% in 2001 to $9.0 million, compared to an increase in 2000 to $0.3 million from nil in 1999. The increase primarily resulted from the Company's share of the losses in and the amortization of goodwill for Path 1.

### Net Earnings

Net earnings declined 87% to $2.3 million, compared to a 34% decline in 2000 to $17.3 million from $26.3 in 1999. Basic earnings per share declined 88% to $0.08, compared to a 33% decline in 2000 to $0.68 from $1.01 in 1999. Recent acquisitions and investments have resulted in significant increases in the amortization of intangible assets and equity interest in loss of partly owned businesses.

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). A reconciliation to accounting principles generally accepted in the United States ("U.S. GAAP") has been provided in note 17 to the consolidated financial statements. Net loss in 2001 under U.S. GAAP totaled $2.8 million or ($0.10) per share. Significant reconciling items include the accounting treatment for in-process research and development for the acquisition of DPS and the investment in Path 1, as well as the treatment of certain acquisition costs incurred by the Company on acquisition of DPS. Under Canadian GAAP, in-process research and development forms part of the acquired technology balance purchased on acquisition of DPS and the goodwill balance associated with the investment in Path 1, while under U.S. GAAP, it is expensed. Also under Canadian GAAP, certain purchase acquisition costs incurred by the Company that were included in the DPS purchase equation are expensed under U.S. GAAP.

## *Liquidity and Capital Resources*

### Cash Position

At year-end, the Company's cash and cash equivalents position was $14.0 million, a decline of $1.4 million or 9% from $15.4 million at year-end 2000. Cash flows provided by operations amounted to $10.0 million in 2001 compared to $15.6 million in 2000, a decrease of 36%. The reduction in the net cash position is not significant.

It is anticipated that working capital of $116.4 million, combined with undrawn operating lines of approximately $50.0 million, and £1.0 million, is sufficient to meet the Company's anticipated daily cash requirements throughout fiscal 2002, although the Company may go to the capital markets in fiscal 2002 to fund acquisition and expansion plans. In fiscal 2001, the Company raised gross proceeds of $52.8 million from a secondary bought deal offering of 2 million common shares.

### Accounts Receivable

Accounts receivable increased $17.5 million in 2001 to $50.1 million from $32.6 million in 2000, an increase of 54%. This is consistent with revenue growth of 58% in the fourth quarter 2001 compared to the fourth quarter 2000. Days sales outstanding remains consistent with management's expectations and the industry profile.

### Inventory

Inventory at year-end increased 10% to $63.3 million, from $57.7 million in 2000. The Company has increased its raw materials and finished goods inventories as its product lines have expanded through the acquisition of DPS. In the latter half of fiscal 2001, the Company initiated an inventory reduction exercise that includes the consolidation of manufacturing facilities for VP&D and Post from three locations to one location in Toronto, Ontario. The benefits of the consolidation are expected to be realized in fiscal 2002 with the relocation of certain manufacturing activities from London, U.K. to Toronto, Ontario. The Company began to see results from the inventory reduction project in the fourth quarter as inventory turnover increased to 1.46 compared to 1.00 in 2000, and inventory levels in Leitch's non-DPS products fell below fiscal 2000 year-end levels.

### Capital Assets & Expenditures

Capital assets, net of accumulated depreciation, rose to $59.2 million in 2001 from $36.7 million in 2000, an increase of 61%. The increase in capital assets includes the acquisition of DPS. Additions to capital assets amounted to $26.7 million in 2001, compared to $10.9 million in 2000, an increase of 145%. These additions were financed from cash flows provided by operations and financing activities undertaken by the Company during the past year. Expenditures during 2001 included leasehold improvements at various facilities around the world, including the new corporate head-office located in Toronto, Ontario; capitalized costs from the global Oracle enterprise resource planning system project; addition of leading-edge surface mount automation lines; purchases of new computer equipment and software; and increases in Server R&D equipment.

The Company plans to spend approximately $15.0 million on capital projects during fiscal 2002, excluding acquisitions. The expenditures will include the completion of the ERP system implementation and additional equipment purchases for research and development and manufacturing equipment. This investment will be funded from cash balances, existing bank facilities and cash flows from operations.

### Investments in Partly Owned Businesses

Investments in partly owned businesses represent the Company's 35.9% interest in Path 1, 50% interest in eyeon Software ("eyeon") and 12.5% interest in Fastvibe. These investments are accounted for under the equity method of accounting, as Leitch exercises significant influence — but not control — over these businesses.

Path 1 is developing software and hardware that allows for broadcast-quality video, CD-quality audio, telephony and other time-critical data to be transmitted end-to-end over IP Ethernet Networks with guaranteed quality of service. Leitch completed its major investment in Path 1 in April 2000.

eyeon develops compositing and image processing software that is bundled in DPS products as well as sold to third parties. On October 12, 2000, the Company acquired a 50% interest in eyeon as part of the Company's acquisition of DPS. DPS acquired its investment in eyeon in 1996.

On September 20, 2000, Leitch purchased a 12.5% equity interest in Fastvibe Corporation and received an option to purchase an additional 22.5%. Fastvibe is an early-stage company that is developing end-to-end video streaming and content management solutions. Fastvibe's business plan is to become an innovative, leading Video Service Provider ("VSP").

### Dividends

No dividends were paid during 2001 or 2000. The Company does not presently foresee payment of dividends and plans to use its income to finance growth and operations, including R&D activities.

## *Risk Management*

In the normal course of its business, the Company is exposed to a variety of risks that can affect its performance and could cause the Company's actual results to differ in material respects from the results discussed herein. These risks are discussed below.

### New Products and Technological Change

The markets for the Company's products are competitive and are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. The Company invests significant resources in the development of products for the markets it serves and to enter new markets, as they require the Company's technological expertise. The success of the Company continues to depend upon market acceptance of its existing products, its ability to enhance those products and its ability to introduce new products and features to meet chang-

ing customer requirements. Leitch has expanded product development to be successful in identifying, developing, manufacturing and marketing new products. The Company's business, financial condition and results of operations could be adversely affected if the Company incurs delays in developing new products or enhancements, or if such products or enhancements do not gain market acceptance.

The Company's products embody complex technology and are designed to be compatible with current and evolving industry standards.

The Company does not rely on any one product and continues to support and develop a diversified product offering.

### Competitive Environment

The Company competes with a large number of companies in each of its product lines. Competitors vary widely in size, product breadth, market expertise and geographical penetration. Most competitors are relatively small (with less than $10 million in annual sales), while some are large multinationals. The key barriers to entry into the Company's markets include establishment and maintenance of a solid technological base, establishing a reputation for industry experience and acceptance, establishment of a strong company reputation as a credible supplier to large end-users, establishment of distribution channels and relationships and development of sufficient product line breadth. The Company believes it has a technological advantage in its products and continues to strengthen sales channels to ensure it remains a key competitor. The Company seeks to protect its competitive advantage by offering a wide variety of products capable of meeting the latest industry standards and requirements.

### Intellectual Property

The Company must protect its proprietary technology and operate without infringing upon the intellectual property rights of others. Leitch relies on a combination of patent, copyright, trademark and trade secret laws and other intellectual property protection methods to protect its proprietary technology. These steps may not protect the Company's proprietary information nor give it any competitive advantage. Others may independently develop substantially equivalent intellectual property or otherwise gain access to Leitch's trade secrets or intellectual property, or disclose such intellectual property or trade secrets. If Leitch is unable to protect its intellectual property, the Company's business could be materially harmed.

There has been substantial litigation regarding patent, trademark and other intellectual property rights involving technology companies. In the future, litigation may be necessary to enforce any patents issued to Leitch, to protect its trade secrets, trademarks and other intellectual property rights owned by the Company, or to defend against claimed infringement. In the course of business, the Company has received communications asserting that its products infringe patents or other intellectual property rights of third parties. The Company has investigated or continues to investigate the factual basis of such communications and has negotiated or will negotiate licenses where appropriate. It is likely that in the course of the Company's business, Leitch will receive similar communications in the future. While it may be necessary or desirable in the future to obtain licenses relating to one or more of the Company's products, or relating to current or future technologies, Leitch may not be able to do so on commercially reasonable terms, or at all. These disputes may not be settled on commercially reasonable terms and may result in long and costly litigation.

### Global Economic Slowdown

Over the past year, the U.S. economy has experienced a swift slowdown that has translated into higher inventory levels and reduced capital spending in many sectors of the economy. The effects of the U.S. slowdown may be felt worldwide, as the U.S. is the primary driver of global demand for products and services. The Company generates 46% of its revenues from customers located in the U.S. If the economic slowdown continues and/or spreads to the Company's markets or outside of the U.S., Leitch's sales could be negatively impacted.

### Business Cycles

The Company's products are typically a small part of the overall cost of large broadcast installations or a large part of smaller production islands and equipment upgrades. Industry requirements are driven to a large extent by national economic pressures and industry standards.

The Company attempts to mitigate the above-noted risks by designing into its products the flexibility to accommodate future standards, and by maintaining a diverse product offering and extensive international distribution channels. The Company's products are sold in over 80 countries directly and through distributors, system integrators, dealers and original equipment manufacturers.

The revenue generated by the Company's extensive sales force also helps to smooth economic fluctuations in

various geographic regions. The different year-ends and budgetary cycles of governments and corporations also contribute to fluctuations in quarterly revenue. Quarterly revenue from operations for the last three years is shown in the following table:

**QUARTERLY REVENUE** ($ millions)

| | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| 2001 | 48.6 | 52.5 | 56.1 | 62.4 |
| 2000 | 40.7 | 43.6 | 39.4 | 39.4 |
| 1999 | 42.7 | 50.0 | 44.5 | 36.0 |

There can be no assurance that growth of revenues achieved by Leitch in previous quarters will continue or that revenues or net earnings in any particular quarter will not be lower, or losses greater, than that of the preceding quarters.

The Company's expense levels are based, in part, on its expectations as to future revenues. If revenue levels are below expectations, operating results are likely to be adversely affected. In light of the foregoing, quarter to quarter comparisons of the Company's operating results are not necessarily meaningful and should not be relied upon as indications of likely future performance or annual operating results. Reductions in revenue or net income between quarters or the failure of the Company to achieve expected quarterly earnings per share could have a material adverse affect on the market price of the common shares of the Company.

### New Markets

The Company is a new entrant into a number of markets. The Company's ability to succeed in these markets is subject to uncertainties, including market acceptance of its products, time to market, strategic alliances and the establishment of new distribution channels.

### Reliance on Key Employees

The Company's prospective success will be dependent on the performance and continued service of its executive officers and certain key employees. Competition for high-level engineering, marketing, sales, and executive personnel is intense, particularly in the technology sector. There can be no assurance that the Company will be able to retain existing personnel or attract, hire and retain additional qualified personnel. The loss of service of key managers and executives, or the failure to attract, hire and retain additional key employees could materially affect the Company's business.

### Environmental & Regulatory Risk

The Company respects all environmental legislation, industry norms and standards. The Company's policy is to limit the use of environmentally harmful substances in the manufacturing of its products.

### Foreign Exchange

The Company's revenue is derived as follows: approximately 75% in U.S. dollars, 9% in Euros, 8% in Pounds Sterling and 8% in Canadian dollars.

Expenses are predominantly incurred in the currencies of the countries in which the Company has substantial operations — Canada, the United States and the United Kingdom. As revenue has grown in international markets, the Company has become exposed to U.S. dollar, Euro and Pound Sterling currency fluctuations. The Company uses foreign exchange option and forward contracts to minimize the downside risk to the Company from fluctuations in its cash flows due to exchange rate changes. On May 1, 2001, the Company purchased an average rate put option on U.S. $34.0 million maturing on April 29, 2002. On April 30, 2000, the Company had an average rate put option on U.S. $30.0 million that matured on April 30, 2001. Over the course of the Company's 2001 fiscal year, the Canadian dollar weakened significantly against the U.S. dollar and the Company did not receive a payment on its put option at April 30, 2001. As at April 30, 2001, the Company had entered into various forward contracts to sell U.S. dollars and Euros at various rates and increments aggregating to U.S. $14 million and Euro 600,000. The contracts mature at various dates up to November 30, 2001.

### Investments in Partly Owned Businesses

On April 30, 2001, the Company had investments in partly owned businesses totaling $32.0 million. These investments are primarily in early-stage companies that are developing technology that is not proven nor is there any assurance that it will become commercially viable. These companies will require additional rounds of funding to continue their development efforts prior to commercializing their technology. If the technology does not become commercially viable or the companies cease operations, Leitch would have to reduce the carrying value of the investments accordingly. This would have a negative impact on net earnings.

### Stock Price Volatility

The trading price of the Company's common stock has in the past and could in the future fluctuate significantly. The fluctuations have been or could be in response to numerous

factors, including quarterly variations in results of operations; announcements of technological innovations or new products by the Company, its customers or competitors; changes in securities analysts' recommendations; announcements of acquisitions; changes in earnings estimates made by independent analysts; general fluctuations in the stock market; or revenues and results of operations below the expectations of public market securities analysts or investors. This could result in a sharp decline in the market price of the Company's common stock. In May 2001, Leitch announced that financial results for the fourth quarter of fiscal 2001, which ended April 30, 2001, would be lower than previous guidance given by the Company. This resulted in a decline in the Company's stock price, and its shares continue to trade in a price range lower than prior to this announcement.

With the advent of the Internet, new avenues have been created for the dissemination of information. The Company has no control over the information that is distributed and discussed on electronic bulletin boards and investment chat rooms. The motives of the people or organizations that distribute such information may not be in the best interest of the Company and its shareholders. This, in addition to other forms of investment information including newsletters and research publications, could result in a sharp decline in the market price of Leitch's common stock.

In addition, stock markets have occasionally experienced extreme price and volume fluctuations. The market prices for high-technology companies have been particularly affected by these market fluctuations, and such effects have often been unrelated to the operating performance of such companies. These broad market fluctuations may cause a decline in the market price of Leitch's common stock.

## Outlook

Consistent with last year, fundamental changes on a global basis are having a dramatic effect on the Company's market opportunities, and the digitization of the broadcast industry both from within the studio and from a transmission standpoint are expected to result in high capital expenditures by Leitch's customer base. This should result in increased opportunities for the Video Processing and Distribution, Server and Post segments. The convergence of telephony, computing and broadcasting coupled with the Company's depth of video experience and intellectual property will provide an opportunity for Leitch to penetrate new markets. The opening up of communication networks to allow transmission of high-quality video, while in its early stages, is also a promising market for the Company.

The Company expects increased competition and margin pressures in its core markets as the large number of suppliers to the video industry begin to cut prices in an attempt to increase sales. The Company believes its quality of products and top-rated customer service will offset the anticipated pricing pressures to some degree over the next year.

The Company continues to review acquisition opportunities with a view to expanding the Company's product breadth, technological expertise and market penetration. Financing of acquisitions, based on size, will come from operations, bank lines or issue of common shares and/or any combination thereof.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Management is responsible for their integrity, objectivity and reliability and, where necessary, they reflect management's best estimates and judgements. Management is also responsible for the maintenance of financial and operating systems, which include effective controls, to provide reasonable assurance that the Corporation's assets are safeguarded and that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities through its Audit Committee whose members are not involved in the daily activities of the Corporation. Each quarter the Audit Committee meets with management and, as necessary, with the independent auditors, KPMG LLP, to satisfy itself that management's responsibilities are properly discharged and to review and report to the Board on the consolidated financial statements.

In accordance with generally accepted auditing standards, the independent auditors conduct an examination each year in order to express a professional opinion on the consolidated financial statements.

**John A. MacDonald**
President & Chief Executive Officer

**Reginald J. Tiessen**
Chief Financial Officer

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Leitch Technology Corporation as at April 30, 2001 and 2000 and the consolidated statements of earnings, retained earnings and cash flows for the years ended April 30, 2001, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2001 and 2000 and the results of its operations and its cash flows for the years ended April 30, 2001, 2000 and 1999 in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected the consolidated net earnings for each of the years ended April 30, 2001, 2000 and 1999 and consolidated shareholders' equity as at April 30, 2001 and 2000 to the extent summarized in note 17 to the financial statements.

KPMG LLP

**Chartered Accountants**

Toronto, Canada
May 29, 2001

# CONSOLIDATED BALANCE SHEETS

| **April 30, 2001 and 2000** (In thousands of Canadian dollars) | 2001 | 2000 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 13,986 | $ 15,405 |
| Accounts receivable, net of allowance of 2001 - $1,887; 2000 - $849 | 50,149 | 32,634 |
| Inventory (note 6) | 63,325 | 57,729 |
| Future income taxes (note 11) | 12,995 | 1,961 |
| Income taxes recoverable | 5,843 | 8,406 |
| Prepaid expenses and other assets | 4,500 | 3,874 |
| | 150,798 | 120,009 |
| Capital assets (note 7) | 59,171 | 36,651 |
| Future income taxes (note 11) | 8,424 | 1,428 |
| Investments in partly owned businesses (note 4) | 32,022 | 35,289 |
| Acquired technology (note 3) | 20,070 | — |
| Goodwill (note 3) | 75,135 | 38,042 |
| | $ 345,620 | $ 231,419 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 30,572 | $ 23,510 |
| Future income taxes (note 11) | 1,709 | 1,341 |
| Income taxes payable | 2,103 | 1,119 |
| | 34,384 | 25,970 |
| Future income taxes (note 11) | 8,822 | 3,375 |
| Shareholders' equity: | | |
| Capital stock (note 8) | 214,066 | 116,197 |
| Cumulative translation adjustment | 2,904 | 2,751 |
| Retained earnings | 85,444 | 83,126 |
| | 302,414 | 202,074 |
| Commitments and contingencies (note 16) | | |
| | $ 345,620 | $ 231,419 |

The accompanying notes form an integral part of these consolidated financial statements.

On behalf of the Board:

**Albert Gnat**
Director

**David Chaikof**
Director

# CONSOLIDATED STATEMENTS OF EARNINGS

**Years ended April 30, 2001, 2000 and 1999**

| (In thousands of Canadian dollars, except per share amounts) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenue | $ 219,594 | $ 163,046 | $ 173,233 |
| Cost of goods sold | 99,206 | 68,536 | 68,142 |
| Gross margin | 120,388 | 94,510 | 105,091 |
| Expenses (income): | | | |
| Selling and administrative | 64,616 | 43,075 | 40,740 |
| Gross research and development | 36,960 | 26,610 | 25,405 |
| Less investment tax credits | (3,696) | (3,491) | (3,100) |
| Interest income | (1,853) | (907) | (1,387) |
| | 96,027 | 65,287 | 61,658 |
| Earnings before amortization, equity interests and income taxes | 24,361 | 29,223 | 43,433 |
| Amortization of goodwill and acquired technology | 7,465 | 2,502 | 2,368 |
| Equity interests in loss of partly owned businesses (note 4) | 9,046 | 274 | — |
| Non-controlling interest (note 2) | 45 | — | — |
| Earnings before income taxes | 7,805 | 26,447 | 41,065 |
| Income taxes (note 11) | 7,635 | 9,160 | 14,813 |
| Income tax recovery - partly owned businesses | (2,148) | - | - |
| | 5,487 | 9,160 | 14,813 |
| Net earnings | $ 2,318 | $ 17,287 | $ 26,252 |
| Earnings per share (note 10): | | | |
| Basic | $ 0.08 | $ 0.68 | $ 1.01 |
| Diluted | 0.08 | 0.68 | 0.97 |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| **Years ended April 30, 2001, 2000 and 1999** (In thousands of Canadian dollars) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Retained earnings, beginning of year | $ 83,126 | $ 81,254 | $ 79,839 |
| Net earnings | 2,318 | 17,287 | 26,252 |
| Premium on redemption of capital stock | — | (15,415) | (24,837) |
| Retained earnings, end of year | $ 85,444 | $ 83,126 | $ 81,254 |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

**Years ended April 30, 2001, 2000 and 1999**

| (In thousands of Canadian dollars, except per share amounts) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Cash flows provided by (used in): | | | |
| Operating activities: | | | |
| Net earnings | $ 2,318 | $ 17,287 | $ 26,252 |
| Items not involving cash: | | | |
| Depreciation | 9,431 | 6,826 | 5,749 |
| Future income taxes (recovery) | (7,201) | 1,418 | 2,144 |
| Amortization of goodwill and acquired technology | 7,465 | 2,502 | 2,368 |
| Equity interests in loss of partly owned businesses | 9,046 | 274 | — |
| Gain on disposal of capital assets | (1,138) | (373) | (17) |
| Non-controlling interest | 45 | — | — |
| Net change in non-cash balances related to operations (note 15) | (9,953) | (12,361) | (9,510) |
| Cash flows provided by operating activities | 10,013 | 15,573 | 26,986 |
| Financing activities: | | | |
| Issuance of capital stock | 55,621 | 3,314 | 10,906 |
| Share issuance costs, net of tax of 2001 - $1,112; 2000 - nil; 1999 - nil | (1,636) | — | — |
| Redemption of capital stock | — | (18,715) | (29,019) |
| Cash flows provided by (used in) financing activities | 53,985 | (15,401) | (18,113) |
| Investing activities: | | | |
| Investment in capital assets | (26,685) | (10,903) | (7,704) |
| Business acquisitions and investments, net of cash acquired | (39,283) | (16,178) | — |
| Decrease in marketable securities | — | 13,526 | 5,755 |
| Proceeds from disposal of capital assets | 2,060 | 1,003 | 284 |
| Cash flows used in investing activities | (63,908) | (12,552) | (1,665) |
| Change in cash balances due to foreign exchange | (1,509) | (1,385) | (12) |
| Increase (decrease) in cash and cash equivalents | (1,419) | (13,765) | 7,196 |
| Cash and cash equivalents, beginning of year | 15,405 | 29,170 | 21,974 |
| Cash and equivalents, end of year | $ 13,986 | $ 15,405 | $ 29,170 |
| Operating cash flow per share (note 10): | | | |
| Basic | $ 0.35 | $ 0.62 | $ 1.03 |
| Diluted | 0.35 | 0.61 | 1.00 |
| Supplementary cash flow information: | | | |
| Income taxes paid | $ 6,203 | $ 9,690 | $ 16,377 |
| Interest paid | 47 | — | — |
| Shares issued in respect of business acquisitions and investments | 43,884 | 19,385 | — |

The accompanying notes form an integral part of these consolidated financial statements.

Years ended April 30, 2001, 2000 and 1999 (in thousands of Canadian dollars, except share and per share amounts)

**Leitch Technology Corporation ("Leitch" or the "Company") is incorporated under the Ontario Business Corporations Act. The Company provides leading-edge solutions to store, switch, distribute, convert, and otherwise process high-quality audio and video signals. Applications for Leitch products span the broadcast, telco, cable, post production, Internet and business-to-business markets. Leitch is headquartered in Toronto, Ontario, Canada with other key offices in Virginia, Kentucky and California in the United States, the United Kingdom, Brazil, Japan, Hong Kong, and Australia.**

## 1 SIGNIFICANT ACCOUNTING POLICIES

**(a) Generally accepted accounting policies** These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These principles conform in all material respects with the accounting principles generally accepted in the United States ("U.S. GAAP"), except as described in note 17.

**(b) Principles of consolidation** The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's main operating subsidiaries are: Leitch Technology International Inc. (Canada); Leitch Incorporated (USA); Leitch Europe Limited (UK); ASC Audio Video Corporation (USA); and Digital Processing Systems, Inc. (USA). Intercompany transactions and balances are eliminated on consolidation.

**(c) Revenue recognition** Revenue is recognized when title to the goods transfers to customers and collectibility is reasonably assured. Provision is made for potential sales returns, which are historically not significant, at the time of shipment.

**(d) Cash and cash equivalents** Cash and cash equivalents are defined as highly liquid investments with original maturities of 90 days or less when purchased.

**(e) Inventory**
Inventory is valued at the lower of cost, determined on the first-in, first-out basis, and net realizable value.

**(f) Capital assets** Capital assets are stated at cost. Depreciation is provided using the following methods and annual rates:

| Asset | Basis | Rate |
|---|---|---|
| Buildings | Straight line | 4 - 5% |
| Leasehold improvements | Lease term | Up to 10 years |
| Automobiles | Declining balance | 30% |
| Computer equipment and software | Straight line | 20% - 33% |
| Equipment | Straight line | 10% - 20% |

**(g) Equity accounted investments** Investments in which the Company has significant influence but not control are accounted for using the equity method. Under the equity method, investments are initially recorded at cost and the carrying value adjusted thereafter to include the Company's pro rata share of post acquisition earnings of the investee, computed by the consolidation method.

The excess of original cost over the fair value of the net tangible assets of equity accounted investments amounts to $37,672 and $34,102 at April 30, 2001 and 2000, respectively, which is being amortized over terms of three to 10 years. Accumulated amortization amounted to $2,945 and $95 at April 30, 2001 and 2000, respectively (note 4).

**(h) Research and development expenditures** Research costs, other than capital expenditures that have alternative uses, are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. The Company has not deferred any such development costs to date.

**(i) Acquired technology and goodwill** Acquired technology represents the fair value of existing technology purchased at the time of acquisition of Digital Processing Systems Inc. ("DPS") and is being amortized on a straight-line basis over a period of four years (note 2). The valuation was determined through an independent valuation.

Goodwill represents the excess of the purchase consideration over the fair value of the net identifiable assets of businesses acquired and is being amortized on a straight-line basis over periods ranging from 10 to 22 years.

On an ongoing basis, management reviews the valuation and amortization of acquired technology and goodwill, taking into consideration any events and circumstances that might have impaired its fair value. The Company assesses impairment by determining whether the unamortized acquired

technology or goodwill balances can be recovered through undiscounted future cash flows provided by the operations of the acquired businesses. Based on the results of this review, the Company does not believe that an impairment in acquired technology or goodwill exists at April 30, 2001.

**(j) Foreign currency translation** Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date; revenue and expense items are translated at the average rates prevailing during the year. The resulting gains or losses are included in consolidated net earnings, except exchange gains or losses arising from the translation of the Company's self-sustaining foreign operations, which are included in the cumulative translation account. When there is a reduction in the Company's net investment in a self-sustaining foreign operation, a proportionate amount of the cumulative translation account is included in the determination of consolidated net earnings.

**(k) Measurement uncertainty** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**(l) Income taxes** The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recognized for all significant temporary differences between the tax and accounting treatment bases of assets and liabilities and for certain carryforward items. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment of the change.

**(m) Investment tax credits** The Company uses the cost reduction method of accounting for investment tax credits. Under this method, investment tax credits are treated as a reduction of the relevant asset account or of research and development expenses in the period that the credits become available, and there is reasonable assurance that they will be realized.

**(n) Stock-based compensation** The Company has a stock option plan for employees and directors. The Company applies the intrinsic value recognition and measurement principles prescribed in U.S. Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." All stock options issued under this plan have an exercise price equal to the fair market value of the underlying common shares on the date of grant. As a result, no compensation expense is recorded on the granting of options under this plan. Consideration paid by employees on the exercise of stock options is recorded as share capital. The stock option plan is further described in note 9.

**(o) Earnings per share** In fiscal 2001, the Company adopted the new provisions of Canadian Institute of Chartered Accountants ("CICA") Section 3500, "Earnings per Share". Basic earnings per share is computed using the weighted average number of common shares that are outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options using the treasury stock method.

Previously, the Company calculated diluted earnings per share using the current imputed earnings method. The change in accounting policy has been applied retroactively and had no significant input.

**(p) Financial instruments** The Company uses derivative financial instruments to manage risks from fluctuations in exchange rates. These instruments include foreign exchange option agreements and foreign exchange forward contracts. All such instruments are only used for risk management purposes and are designated as cash flow hedges. The Company accounts for these financial instruments as hedges and, as a result, the carrying values of the financial instruments are not adjusted to reflect their current market value. Foreign currency gains and losses on forward contracts are recognized on settlement. Premiums paid with respect to option agreements are deferred and charged to net earnings over the contract period.

## 2 BUSINESS ACQUISITIONS

**Fiscal 2001 Digital Processing Systems Inc. ("DPS")** On October 12, 2000, the Company acquired a 93% interest in DPS. On November 24, 2000, Leitch acquired the remaining 7% interest in DPS. On December 1, 2000, DPS was amalgamated with Leitch Technology International Inc. DPS designs, manufactures and distributes innovative hardware and software products that facilitate the creation, manipulation and dissemination of broadcast-quality video and audio content. The purchase consideration for the two transactions totalled $86,262 including acquisition costs of $2,380. The purchase price of $83,882 was funded through Leitch's cash

Years ended April 30, 2001, 2000 and 1999 (in thousands of Canadian dollars, except share and per share amounts)

resources and the issuance of 1,743,357 common shares valued at $43,884. The excess cost over the fair value of net tangible assets acquired of $64,196 has been allocated to acquired technology and goodwill. The acquired technology is being amortized over four years and the goodwill over a 13-year period.

The acquisition has been accounted for using the purchase method and, accordingly, the results of operations have been included in the consolidated financial statements from the date of acquisition.

Details of the net assets acquired, at fair value, and the consideration given are as follows:

| | |
|---|---|
| Net working capital | $ 10,523 |
| Capital assets | 7,960 |
| Investments in partly owned businesses | 1,674 |
| Future income taxes | 1,909 |
| Acquired technology | 22,300 |
| Goodwill | 41,896 |
| | $ 86,262 |
| Consideration is comprised of: | |
| Cash | $ 39,998 |
| Capital stock | 43,884 |
| Acquisition costs | 2,380 |
| | $ 86,262 |

## 3 ACQUIRED TECHNOLOGY AND GOODWILL

Acquired technology of $20,070 and nil at April 30, 2001 and 2000, respectively, net of accumulated amortization relates to the acquisition of Digital Processing Systems Inc. in 2001.

Details of goodwill by acquisition, net of accumulated amortization is as follows:

| | Year of acquisition | 2001 | 2000 |
|---|---|---|---|
| Hazcol Metal Fabrication Ltd. (Canada) | 1996 | $ 914 | $ 958 |
| Innovision Limited (UK) | 1997 | 12,934 | 14,664 |
| ASC Audio Video Corporation (USA) | 1998 | 19,777 | 20,761 |
| Silicon Construction Sweden AB (Sweden) | 1998 | 1,311 | 1,659 |
| Digital Processing Systems Inc. (Canada) | 2001 | 40,199 | — |
| | | $ 75,135 | $ 38,042 |

Amortization of goodwill and acquired technology was $7,465, $2,502 and $2,368 for the years ended April 30, 2001, 2000 and 1999, respectively.

## 4 INVESTMENTS IN PARTLY OWNED BUSINESSES

The investments in partly owned businesses are comprised of the following net balances:

| | Ownership % | 2001 | Ownership % | 2000 |
|---|---|---|---|---|
| Path 1 Network Technologies Inc. | 35.94 | $ 27,396 | 37.70 | $ 35,289 |
| eyeon Software Inc. | 50.00 | 1,744 | — | — |
| Fastvibe Corporation | 12.50 | 2,882 | — | — |
| | | $ 32,022 | | $ 35,289 |

**(a) Fiscal 2001 eyeon Software Inc.** On October 12, 2000, the Company acquired a 50% interest in eyeon Software Inc. ("eyeon") as part of the Company's acquisition of DPS. eyeon develops compositing and image processing software that is bundled in DPS products as well as sold to third parties. The Company has the right to appoint two of the five seats on the Board of Directors and has significant influence but does not control eyeon and accounts for this investment under the equity method. At the time of acquisition of DPS, eyeon's fair value was determined to be $1,674. DPS acquired its 50% interest in eyeon in 1996.

**Fastvibe Corporation** On September 20, 2000, the Company acquired a 12.5% interest in Fastvibe Corporation ("Fastvibe"). Fastvibe is a video service provider that is developing end-to-end video streaming and content

Years ended April 30, 2001, 2000 and 1999 (in thousands of Canadian dollars, except share and per share amounts)

management solutions. Leitch also has an option to acquire an additional 22.5% equity interest in Fastvibe.

Leitch holds one of the four seats on the Board of Directors and has significant shareholder rights under the purchase agreement. Since the Company has significant influence but not control over Fastvibe, the investment is accounted for under the equity method. The purchase consideration totalled $3,675 comprised entirely of cash. The excess of cost over net tangible assets acquired of $3,570 has been allocated to goodwill and is being amortized over a period of three years. The goodwill amount is attributable to management know-how and new market opportunities.

**(b) Fiscal 2000 Path 1 Network Technologies Inc.** On April 20, 2000, the Company acquired a 37.7% interest in Path 1 Network Technologies Inc. ("Path 1"). Path 1 designs and develops software and hardware that allows for broadcast-quality video, CD-quality audio, telephony and other time-critical data to be transmitted end-to-end over IP Ethernet Networks with guaranteed quality of service ("QoS").

The Company is the single largest shareholder in Path 1 and holds two of the seven seats on the Board of Directors. Since the Company has significant influence — but not control — over Path 1, the investment is accounted for under the equity method.

The purchase consideration totalled $35,563 comprised of cash of $16,178 and 806,000 common shares valued at $19,385, which resulted in an excess cost over net tangible assets acquired of $34,102. The purchase price difference has been allocated to goodwill. The goodwill amount is attributable to technological know-how and expertise and is being amortized over 10 years.

The equity interests in loss (earnings) of partly owned businesses is comprised of:

| | 2001 | 2000 |
|---|---|---|
| Path 1 | $ 8,323 | $ 274 |
| eyeon | (70) | — |
| Fastvibe | 793 | — |
| | $ 9,046 | $ 274 |

The goodwill amortization component of the above noted equity interests is as follows:

| | 2001 | 2000 |
|---|---|---|
| Path 1 | $ 2,218 | $ 95 |
| eyeon | — | — |
| Fastvibe | 727 | — |
| | $ 2,945 | $ 95 |

## 5 BANKING FACILITIES

The Company has unsecured operating credit facilities of $50,000,000 Cdn. (which can include up to U.S. $20,000,000) and £1,000,000. Interest is based on the bank's Prime Lending Rate for Canadian dollar advances and the bank's U.S. Dollar Base Rate for U.S. dollar advances. The bank's London Interbank Offer Rate ("LIBOR") plus 5/8% is charged on pound sterling advances. There were outstanding balances of $378 and nil at April 30, 2001 and 2000, respectively.

## 6 INVENTORY

| | 2001 | 2000 |
|---|---|---|
| Raw materials | $ 20,155 | $ 16,377 |
| Work in progress | 10,132 | 12,640 |
| Finished goods | 33,038 | 28,712 |
| | $ 63,325 | $ 57,729 |

## 7 CAPITAL ASSETS

| 2001 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Land | $ 3,098 | $ — | $ 3,098 |
| Buildings | 16,875 | 5,817 | 11,058 |
| Leasehold improvements | 5,754 | 693 | 5,061 |
| Automobiles | 1,299 | 717 | 582 |
| Computer equipment and software | 10,882 | 4,206 | 6,676 |
| Equipment | 55,347 | 22,651 | 32,696 |
| | $ 93,255 | $ 34,084 | $ 59,171 |

| 2000 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Land | $ 2,138 | $ — | $ 2,138 |
| Buildings | 12,249 | 5,177 | 7,072 |
| Leasehold improvements | 985 | 384 | 601 |
| Automobiles | 1,375 | 788 | 587 |
| Computer equipment and software | 4,820 | 2,503 | 2,317 |
| Equipment | 43,891 | 19,955 | 23,936 |
| | $ 65,458 | $ 28,807 | $ 36,651 |

Years ended April 30, 2001, 2000 and 1999 (in thousands of Canadian dollars, except share and per share amounts)

## 8 CAPITAL STOCK

**Authorized:** Unlimited number of preference shares, issuable in series
Unlimited number of common shares

A summary of changes to issued share capital is as follows:

| | Common shares | | Warrants | | |
|---|---|---|---|---|---|
| | **Number** | **Amount** | **Number** | **Amount** | **Total** |
| Issued and outstanding, April 30, 1998 | 26,049,476 | $ 89,643 | 215,672 | $ 431 | $ 90,074 |
| Conversion of warrants to common shares and redemption of warrants | 215,672 | 4,276 | (215,672) | (431) | 3,845 |
| Exercise of options for cash, including a tax recovery on certain options exercised by U.S. employees of $393 | 468,635 | 7,061 | — | — | 7,061 |
| Shares purchased for cancellation (a) | (1,131,100) | (4,182) | — | — | (4,182) |
| Issued and outstanding, April 30, 1999 | 25,602,683 | 96,798 | — | — | 96,798 |
| Issue of common shares in connection with investment in Path 1 (note 4(b)) | 806,000 | 19,385 | — | — | 19,385 |
| Exercise of options for cash, including a tax recovery on certain options exercised by U.S. employees of $1,266 | 372,990 | 3,314 | — | — | 3,314 |
| Shares purchased for cancellation (b) | (887,000) | (3,300) | — | — | (3,300) |
| Issued and outstanding, April 30, 2000 | 25,894,673 | 116,197 | — | — | 116,197 |
| Issue of common shares for cash | 2,000,000 | 52,800 | — | — | 52,800 |
| Share issuance costs, net of tax of $1,112 | — | (1,636) | — | — | (1,636) |
| Issue of common shares in connection with acquisition of DPS (note 2) | 1,743,357 | 43,884 | — | — | 43,884 |
| Exercise of options for cash, including a tax recovery on certain options exercised by U.S. employees of $154 | 144,050 | 2,821 | — | — | 2,821 |
| Issued and outstanding, April 30, 2001 | 29,782,080 | $ 214,066 | — | $ — | $ 214,066 |

**(a)** During the year ended April 30, 1999, the Company, pursuant to a Normal Course Issuer Bid, acquired and cancelled 1.1 million of its common shares for cash consideration totalling $29,019. The excess of the purchase cost of these shares over their historical carrying value of $24,837 was charged to retained earnings.

**(b)** During the year ended April 30, 2000, the Company, pursuant to a Normal Course Issuer Bid, acquired and cancelled 887,000 of its common shares for cash consideration totalling $18,715. The excess of the purchase cost of these shares over their historical carrying value of $15,415 was charged to retained earnings. The Normal Course Issuer Bid terminated on June 27, 2000, and allowed the Company to purchase up to 2,211,580 common shares at market prices.

## 9 STOCK-BASED COMPENSATION

The Company has established a stock option plan (the "Option Plan") to encourage ownership in the Company's shares by directors, officers and employees of the Company and its subsidiaries. Options are granted with an exercise price equal to the market price of the common shares of the Company at the date of granting, for a term of five years, vesting at five percent per three-month period.

Activity under the Company's stock option plan is summarized as follows:

| | Options | Weighted average exercise price per option |
|---|---|---|
| Outstanding, April 30, 1998 | 2,259,210 | $23.43 |
| Granted | 643,500 | 26.77 |
| Exercised | (468,635) | 14.23 |
| Cancelled | (229,275) | 28.16 |
| Outstanding, April 30, 1999 | 2,204,800 | 22.13 |
| Granted | 1,146,500 | 20.72 |
| Exercised | (372,990) | 5.49 |
| Cancelled | (320,000) | 24.59 |
| Outstanding, April 30, 2000 | 2,658,310 | 23.56 |
| Granted | 1,093,500 | 22.43 |
| Exercised | (144,050) | 18.45 |
| Cancelled | (418,975) | 26.16 |
| Outstanding, April 30, 2001 | 3,188,785 | 23.06 |
| Exercisable, April 30, 2001 | 1,043,475 | $24.12 |

Years ended April 30, 2001, 2000 and 1999 (in thousands of Canadian dollars, except share and per share amounts)

The following table summarizes information concerning outstanding and exercisable stock options at April 30, 2001:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices | Number outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price per option | Number exercisable | Weighted average exercise price per option |
| $15.95 - $19.79 | 615,000 | 3.38 | $18.05 | 189,875 | $18.20 |
| $20.00 - $24.99 | 1,971,035 | 3.19 | 22.59 | 608,800 | 23.06 |
| $25.48 - $29.00 | 416,750 | 3.09 | 26.90 | 140,012 | 27.68 |
| $32.00 - $35.54 | 126,000 | 2.19 | 34.28 | 65,788 | 34.32 |
| $38.92 - $40.35 | 60,000 | 1.64 | 39.64 | 39,000 | 39.64 |
| | 3,188,785 | | 23.06 | 1,043,475 | 24.12 |

The Company applies the intrinsic value based method of accounting for its fixed employee stock compensation plan. Accordingly, no compensation expense has been recognized for the years ended April 30, 2001, 2000 and 1999. Stock-based Compensation, a recent Exposure Draft issued by the CICA, provides that companies should also disclose, on a pro forma basis, net earnings and earnings per share had the Company adopted the fair value method for accounting for stock options. This guidance is similar to Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation". Had compensation expense been determined based on the fair value at the grant dates for stock options granted on or after January 1, 2001, the Company's results would have been as follows:

| | 2001 |
|---|---|
| Net Earnings | |
| As reported | $ 2,318 |
| Pro forma | 2,282 |
| Earnings per share as reported: | |
| Basic | $ 0.08 |
| Fully diluted | 0.08 |
| Earnings per share pro forma: | |
| Basic | $ 0.08 |
| Fully diluted | 0.08 |

The fair value of each stock option grant was determined on the date of grant. The weighted average fair value of a stock option with an exercise price equal to the estimated market price of a common share on the date of grant for stock options granted on or after January 1, 2001 was $7.55. The fair value of the stock options was determined using the Black Scholes option pricing model, based on the following assumptions:

| | |
|---|---|
| Risk free interest rate | 5.75% |
| Expected life | 5 years |
| Expected volatility | 36.8% |
| Expected dividends | — |

Because additional stock options are expected to be granted each year, the above pro forma disclosure is not representative of pro forma effects on reported financial results for future years.

## 10 EARNINGS PER SHARE

The computation of basic and diluted earnings per share are as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Basic: | | | |
| Net income attributable to common shares | $ 2,318 | $ 17,287 | $ 26,252 |
| Weighted average common shares outstanding | 28,577,275 | 25,317,574 | 26,201,987 |
| Basic earnings per share | $0.08 | $0.68 | $1.01 |
| Diluted: | | | |
| Adjusted income attributable to common shares | $ 2,318 | $ 17,287 | $ 26,252 |
| Weighted average common shares outstanding | 28,577,275 | 25,317,574 | 26,201,987 |
| Assumed exercise of stock options, net of common shares assumed repurchased with the proceeds | 203,381 | 164,219 | 772,714 |
| Assumed exercise of warrants, net of common shares assumed repurchased with the proceeds | — | — | 13,571 |
| Weighted average potential common shares outstanding | 28,780,656 | 25,481,793 | 26,988,272 |
| Diluted earnings per share | $ 0.08 | $ 0.68 | $ 0.97 |

Basic and diluted operating cash flow per share was calculated using the weighted average common shares and weighted average potential common shares outstanding, respectively, for the years ended April 30, 2001, 2000 and 1999.

Years ended April 30, 2001, 2000 and 1999 (in thousands of Canadian dollars, except share and per share amounts)

## 11 INCOME TAXES

The provision for income taxes is comprised of:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Current taxes | $10,510 | $7,742 | $12,669 |
| Future taxes | (2,875) | 1,418 | 2,144 |
| Future tax recovery - partly owned businesses | (2,148) | — | — |
| Income tax expense | $5,487 | $9,160 | $14,813 |

The Company's provision for income taxes is made up as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Provision for income taxes based on statutory Canadian corporate tax rates | $3,366 | $11,795 | $18,315 |
| Effect on (recovery of) provision attributable to the following items: | | | |
| Manufacturing and processing credit | (1,236) | (1,719) | (2,012) |
| Provincial income tax reductions for manufacturing and processing credit development | (361) | (502) | (1,109) |
| Foreign operations subject to different tax rates | (56) | (344) | (986) |
| Non-deductible amortization of goodwill and acquired technology | 2,657 | 1,116 | 1,065 |
| Differences between carrying cost and adjusted cost base of the investment in partly owned businesses | 1,754 | — | — |
| Provincial research and development credit | (263) | (560) | (547) |
| Other | (374) | (626) | 87 |
| Income tax expense | $5,487 | $9,160 | $14,813 |

Future income taxes are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax basis. Future tax assets and liabilities are comprised of the following as at April 30, 2001 and 2000:

| | 2001 | 2000 |
|---|---|---|
| Future tax assets: | | |
| Current: | | |
| Inventory and similar reserves | $8,185 | $1,961 |
| Income tax effect of net operating losses carried forward | 4,810 | — |
| | 12,995 | 1,961 |
| Long-term: | | |
| Income tax effect of net operating losses carried forward | 2,841 | 713 |
| Income tax effect of non-operating losses carried forward | 602 | 332 |
| Share issue costs | 1,138 | 383 |
| Goodwill | 1,695 | — |
| Investments in partly owned businesses — difference in carrying cost and adjusted cost base | 2,148 | — |
| | 8,424 | 1,428 |
| Total future tax assets | $21,419 | $3,389 |
| Future tax liabilities: | | |
| Current: | | |
| Investment tax credits | $1,709 | $1,341 |
| Long-term: | | |
| Acquired technology | 5,187 | — |
| Capital assets - differences in depreciation and undepreciated capital costs | 3,635 | 3,375 |
| | 8,822 | 3,375 |
| Total future tax liabilities | $10,531 | $4,716 |

Years ended April 30, 2001, 2000 and 1999 (in thousands of Canadian dollars, except share and per share amounts)

## 12 PENSION COSTS

A number of subsidiaries of the Company operate defined contribution savings plans (the "Plans") for their employees. The assets of the Plans are held separately from those of the Company in independently administered funds. Contributions paid and expensed by the Company for the years ended April 30, 2001, 2000 and 1999 amounted to $281, $133 and $125, respectively.

## 13 SEGMENTED INFORMATION

The Company's operations include four reportable segments. These segments are Video Processing and Distribution, Servers, Post Production and Semiconductor. Video Processing and Distribution includes products that are used to distribute, process and switch high quality video and audio signals. The Servers segment designs, manufacturers and sells video servers. The Post Production segment includes products that are used to capture, edit and record digital video. The Semiconductor segment designs and markets advanced Integrated Circuits.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (note 1). The Company evaluates performance based on several factors, of which the primary financial measures are revenue and contribution margin. The Company defines contribution margin as gross margin less net research and development costs.

Inter-segment transactions are accounted for at market prices.

### (a) Industry segments

| 2001 | Video processing and distribution | Servers | Post production | Semi-conductor | Other | Inter-segment eliminations | Total |
|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | |
| External | $ 159,366 | $ 42,008 | $ 16,794 | $ 1,426 | $ — | $ — | $ 219,594 |
| Internal | — | — | — | 1,057 | 1,625 | (2,682) | — |
| | $ 159,366 | $ 42,008 | $ 16,794 | $ 2,483 | $ 1,625 | $ (2,682) | $ 219,594 |
| Contribution margin | $ 66,688 | $ 16,762 | $ 7,469 | $ (2,738) | $ 1,625 | $ (2,682) | $ 87,124 |
| Selling and administrative expenses | | | | | | | 64,616 |
| Interest income | | | | | | | (1,853) |
| Earnings before amortization, equity interests and income taxes | | | | | | | $ 24,361 |
| Total assets | $ 219,749 | $ 41,360 | $ 44,136 | $ 2,312 | $ 38,063 | $ — | $ 345,620 |
| Capital asset expenditures | 16,285 | 5,166 | 6 | 769 | 4,459 | - | 26,685 |
| Goodwill and acquired technology additions | 21,399 | — | 42,797 | — | — | — | 64,196 |
| **2000** | | | | | | | |
| Revenue: | | | | | | | |
| External | $ 128,098 | $ 33,143 | $ — | $ 1,805 | $ — | $ — | $ 163,046 |
| Internal | — | — | — | 895 | 1,800 | (2,695) | — |
| | $ 128,098 | $ 33,143 | $ — | $ 2,700 | $ 1,800 | $ (2,695) | $ 163,046 |
| Contribution margin | $ 58,771 | $ 14,277 | $ — | (762) | $ 1,800 | $ (2,695) | $ 71,391 |
| Selling and administrative expenses | | | | | | | 43,075 |
| Interest income | | | | | | | (907) |
| Earnings before amortization, equity interests and income taxes | | | | | | | $ 29,223 |
| Total assets | $ 126,745 | $ 57,062 | $ — | $ 3,207 | $ 44,405 | $ — | $ 231,419 |
| Capital asset expenditures | 8,537 | 2,024 | — | 342 | — | — | 10,903 |
| Goodwill and acquired technology additions | — | — | — | — | — | — | — |

| 1999 | Video processing and distribution | Servers | Post production | Semi-conductor | Other | Inter-segment eliminations | Total |
|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | |
| External | $ 144,519 | $ 27,101 | $ — | $ 1,613 | $ — | $ — | $ 173,233 |
| Internal | — | — | — | 818 | 1,700 | (2,518) | — |
| | $ 144,519 | $ 27,101 | $ — | $ 2,431 | $ 1,700 | $ (2,518) | $ 173,233 |
| Contribution margin | $ 71,209 | $ 12,305 | $ — | $ 90 | $ 1,700 | $ (2,518) | $ 82,786 |
| Selling and administrative expenses | | | | | | | 40,740 |
| Interest income | | | | | | | (1,387) |
| Earnings before amortization, equity interests and income taxes | | | | | | | $ 43,433 |
| Total assets | $ 128,229 | $ 43,734 | $ — | $ 3,323 | $ 29,810 | $ — | $ 205,096 |
| Capital asset expenditures | 4,986 | 2,392 | — | 326 | — | — | 7,704 |
| Goodwill and acquired technology additions | — | — | — | — | — | — | — |

**(b) Geographic segments** The Company's external revenue by geographic region is based on the region in which the customer is located. The identifiable assets and goodwill are based on the geographic area in which the Company operates:

| 2001 | United States | Europe | Non-U.S. Americas | Pacific Rim | Total |
|---|---|---|---|---|---|
| Revenue | $ 101,000 | $ 62,184 | $ 27,815 | $ 28,595 | $ 219,594 |
| Identifiable assets | 65,932 | 36,057 | 142,748 | 5,678 | 250,415 |
| Goodwill and acquired technology | 19,777 | 14,245 | 61,183 | — | 95,205 |

| 2000 | United States | Europe | Non-U.S. Americas | Pacific Rim | Total |
|---|---|---|---|---|---|
| Revenue | $ 82,770 | $ 43,978 | $ 20,690 | $ 15,608 | $ 163,046 |
| Identifiable assets | 49,959 | 26,797 | 116,254 | 367 | 193,377 |
| Goodwill | 20,761 | 16,323 | 958 | — | 38,042 |

| 1999 | United States | Europe | Non-U.S. Americas | Pacific Rim | Total |
|---|---|---|---|---|---|
| Revenue | $ 90,670 | $ 45,164 | $ 27,099 | $ 10,300 | $ 173,233 |
| Identifiable assets | 50,315 | 26,689 | 88,302 | 341 | 165,647 |
| Goodwill | 22,165 | 16,298 | 986 | - | 39,449 |

## 14 FINANCIAL INSTRUMENTS

**(a) Foreign currency risk management** The Company uses derivative financial instruments, principally foreign exchange option agreements and foreign exchange forward contracts, to manage the risk to the Company from fluctuations in exchange rates. Derivative financial instruments are not used for speculative purposes. Foreign exchange option and forward contracts are entered into with maturities of no longer than two years. As at April 30, 2001, the Company had entered into various forward contracts to sell U.S. dollars and Euros at various rates and increments aggregating to U.S. $14,000,000 and EUR 600,000. The contracts mature at various dates up to November 30, 2001. On May 1, 2001, the Company purchased an average rate put option on U.S. $34,000,000 with an exchange rate of $1.50, maturing on April 29, 2002. As at April 30, 2000, the Company had a put option on U.S. $30,000,000 with an exchange rate of $1.45, maturing on April 30, 2001. As at April 30, 1999, the Company had a put option on U.S. $30,000,000 with an exchange rate of $1.48, maturing on April 28, 2000.

Years ended April 30, 2001, 2000 and 1999 (in thousands of Canadian dollars, except share and per share amounts)

**(b) Credit risk** The Company does not have a significant exposure to any individual customer. As at April 30, 2001 and 2000, substantially all of the Company's accounts receivable were insured, with the exception of G7 governments and Fortune 500 companies. The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its derivative financial instruments and accounts receivable insurance contract. The Company does not obtain collateral or other security to support financial instruments subject to credit risk but mitigates this risk by dealing only with financially sound counterparties and, accordingly, does not anticipate loss for non-performance.

**(c) Fair value disclosures** The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. The fair value of the foreign exchange forward contracts was higher than the carrying value of nil by $136 at April 30, 2001. The fair value of the foreign exchange options was higher than the carrying value by $197 at April 30, 2000 and by $221 at April 30, 1999. The fair value of the options and forward contracts was estimated by obtaining quotes of the amount that the Company would have to pay counterparties to terminate the agreement.

## 15 NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

The net change in non-cash balances related to operations are as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Accounts receivable | $ (7,546) | $ (5,254) | $ 1,743 |
| Inventory | 6,877 | (9,567) | (5,603) |
| Income taxes | 1,478 | (4,986) | (3,945) |
| Prepaid expenses and other assets | 1,604 | (168) | (2,122) |
| Accounts payable and accrued liabilities | (12,366) | 7,614 | 417 |
| | $ (9,953) | $ (12,361) | $ (9,510) |

## 16 COMMITMENTS AND CONTINGENCIES

The Company has entered into various operating leases for premises, automobiles and office equipment. The future minimum operating lease commitments for the next five years and thereafter are as follows:

| | |
|---|---|
| 2002 | $ 4,264 |
| 2003 | 3,756 |
| 2004 | 3,571 |
| 2005 | 3,153 |
| 2006 | 2,970 |
| Thereafter | 12,959 |
| | $ 30,673 |

Rent expense was $2,159, $1,705 and $1,602 for the years ended April 30, 2001, 2000 and 1999, respectively.

Years ended April 30, 2001, 2000 and 1999 (in thousands of Canadian dollars, except share and per share amounts)

## 17 RECONCILIATION TO U.S. GAAP

The consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP. The following adjustments would be required in order to present the financial statements in accordance with U.S. GAAP:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net earnings in accordance with Canadian GAAP | $ 2,318 | $ 17,287 | $ 26,252 |
| DPS acquisition differences, net of income tax effect (a) | (4,204) | — | — |
| Adjustment to equity accounted investment, net of income tax effect (b) | (1,084) | (3,525) | — |
| Net earnings (loss) in accordance with U.S. GAAP (d) | (2,970) | 13,762 | 26,252 |
| Change in cumulative translation account (f) | 153 | 262 | 416 |
| Change in unrealized holding gain (loss) on marketable securities, net of income tax (c) and (f) | — | — | (66) |
| U.S. GAAP comprehensive income (loss) | $ (2,817) | $ 14,024 | $ 26,602 |
| U.S. GAAP earnings per share: | | | |
| Basic | $ (0.10) | $ 0.54 | $ 1.01 |
| Fully diluted | (0.10) | 0.54 | 0.97 |
| Shareholders' equity based on Canadian GAAP | $ 302,414 | $ 202,074 | $ 180,541 |
| DPS acquisition differences, net of income tax effect (a) | (4,204) | — | — |
| Adjustment to equity accounted investment, net of income tax effect (b) | (4,609) | (3,525) | — |
| Shareholders' equity based on U.S. GAAP | $ 293,601 | $ 198,549 | $ 180,541 |

### Summary of accounting policy differences

**(a) Adjustment for DPS acquisition differences including in process research and development ("IPR&D") and other acquisition costs** Statement of Financial Accounting Standards 2, "Accounting for Research and Development Costs" ("SFAS 2") requires that all research and developments costs be charged to expense as incurred. As a result, under U.S. GAAP, the Company would have expensed all acquired IPR&D related to the acquisition of DPS. The amount of IPR&D was determined through an independent valuation. The amount of IPR&D recorded at April 30, 2001, which is included in acquired technology, totalled $2,973, net of future taxes of $897. As a result, earnings before income taxes for the year ended April 30, 2001, would decrease by $3,870 and provision for future income taxes would decrease by $897.

Emerging Issues Tax Force ("EITF") Abstract, Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exist an Activity" and Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," requires a charge to earnings for certain costs resulting from an acquisition that are to be incurred by an acquiring company. Under Canadian GAAP, for acquisitions completed prior to December 21, 2000, these costs could be included in the allocation of the acquisition purchase cost subject to certain conditions. The Company included $1,280 for certain costs to be incurred by Leitch, net of future income taxes of $720 in its allocation of the acquisition purchase cost. As a result under U.S. GAAP for the year ended April 30, 2001, selling and administrative expenses would increase by $2,000, provision for future income taxes would decrease by $720 and the amortization of goodwill and acquired technology would be reduced by $49. Goodwill would decrease by $1,231.

**(b) Adjustment to equity accounted investment** Under SFAS 2, the Company would have expensed all acquired IPR&D related to the investment in Path 1 in fiscal 2000. The Company's share of the IPR&D totalled $6,601, net of future taxes of $4,400. For the years ended April 30, 2001 and 2000, the amortization charge for goodwill would be reduced by $510 and $18, respectively, by allocating part of the purchase price to IPR&D. For the year ended April 30, 2001, tax rate reductions would reduce future income tax benefits by $1,594. As a result, the equity interest in the loss of Path 1 for the year ended April 30, 2001 and April 30, 2000 would increase by $1,084 and $3,525, respectively, net of future income taxes of $(1,594) and $3,058, respectively. The investment in Path 1 would increase (decrease) by $510 and $(6,583) and future income taxes would increase (decrease) by $(1,594) and $3,058, respectively.

**(c) Accounting for marketable securities** Statement of Financial Accounting Standards 115, "Accounting for Certain Investments and Equity Securities" ("SFAS 115") requires that marketable securities classified as available for sale be reported at fair value with unrealized holding gains reported as a separate component of shareholders' equity and comprehensive income, net of related future income taxes.

**(d) Income taxes** For Canadian GAAP, the Company follows the provisions of the CICA Handbook Section 3465, "Income Taxes." For U.S. GAAP reconciliation purposes, the Company follows the recommendation of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109").

Under U.S. GAAP, investment tax credits received by the Company in respect of its research and development expenditures are recorded as a reduction of income tax expense, while under Canadian GAAP these tax credits are recorded as a reduction of the research and development expense. Although there is no impact on net earnings, under U.S. GAAP earnings before income tax expense for the years ended April 30, 2001, 2000 and 1999 would have decreased by $3,696, $3,491 and $3,100, respectively, and income tax expense would have decreased by a corresponding amount.

**(e) Amortization of goodwill and acquired technology** Under U.S. GAAP, the Company would not present a subtotal prior to amortization of goodwill and acquired technology and would include amortization of goodwill and acquired technology with other operating costs under the heading expenses.

**(f) Comprehensive income** Under Statement of Financial Accounting Standards 130, "Reporting Comprehensive Income" ("SFAS 130"), all changes in shareholders' equity other than transactions with shareholders are included in comprehensive income regardless of whether they are considered to be results of operations of the period. Under Canadian GAAP, changes in the cumulative translation account are excluded from income and are included as a separate component of shareholders' equity and unrealized holding gains or losses on marketable securities are not recorded until realized.

**(g) Impact of new accounting standards** The Financial Accounting Standards Board in the United States has issued a pronouncement entitled "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which the Company is required to adopt in the first quarter of its year ending April 30, 2002. Among other provisions, this standard requires that entities recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Gains and losses resulting from changes in the fair value of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Based on the Company's current operations and hedging strategies, management does not expect the adoption of this standard to have a material impact on the results of operations, financial position or cash flows.

## 18 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

## SUPPLEMENTARY FINANCIAL INFORMATION

**Years ended April 30**
(In thousands of Canadian dollars except per share amounts, Unaudited)

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| **Income Statement Data** | | | | | |
| Revenue | $ 219,594 | $ 163,046 | $ 173,233 | $ 147,743 | $ 118,470 |
| Gross margin | 120,388 | 94,510 | 105,091 | 88,127 | 66,907 |
| Expenses | | | | | |
| Selling and administrative expenses | 64,616 | 43,075 | 40,740 | 33,773 | 24,519 |
| Gross research and development | 36,960 | 26,610 | 25,405 | 20,570 | 12,487 |
| less investment tax credits | (3,696) | (3,491) | (3,100) | (2,972) | (1,860) |
| Interest income | (1,853) | (907) | (1,387) | (1,137) | (346) |
| | 96,027 | 65,287 | 61,658 | 50,234 | 34,800 |
| Earnings before amortization, equity interests and income taxes | 24,361 | 29,223 | 43,433 | 37,893 | 32,107 |
| Amortization of goodwill and acquired technology | 7,465 | 2,502 | 2,368 | 1,663 | 508 |
| Equity interests in loss of partly owned businesses | 9,046 | 274 | — | — | — |
| Non-controlling interest | 45 | — | — | — | — |
| Earnings before income taxes | 7,805 | 26,447 | 41,065 | 36,230 | 31,599 |
| Income taxes | 7,635 | 9,160 | 14,813 | 12,837 | 11,472 |
| Income tax recovery - partly owned businesses | (2,148) | — | | — | — |
| | 5,487 | 9,160 | 14,813 | 12,837 | 11,472 |
| Net earnings | $ 2,318 | $ 17,287 | $ 26,252 | $ 23,393 | $ 20,127 |
| Earnings per share: | | | | | |
| Basic | $ 0.08 | $ 0.68 | $ 1.01 | $ 0.92 | $ 0.85 |
| Diluted | $ 0.08 | $ 0.68 | $ 0.97 | $ 0.89 | $ 0.82 |
| **Net Operating Income** | | | | | |
| Earnings before amortization, equity interests and income taxes | $ 24,361 | $ 29,223 | $ 43,433 | $ 37,893 | $ 32,107 |
| Income taxes | 7,635 | 9,160 | 14,813 | 12,837 | 11,472 |
| Net operating income | $ 16,726 | $ 20,063 | $ 28,620 | $ 25,056 | $ 20,635 |
| Net operating income per share: | | | | | |
| Basic | $ 0.59 | $ 0.79 | $ 1.09 | $ 0.92 | $ 0.85 |
| Diluted | $ 0.58 | $ 0.79 | $ 1.06 | $ 0.89 | $ 0.82 |
| **Balance Sheet Data** | | | | | |
| Cash and cash equivalents | $ 13,986 | $ 15,405 | $ 29,170 | $ 21,974 | $ (5,645) |
| Marketable securities | — | — | 13,526 | 19,281 | — |
| Working capital | 116,414 | 94,039 | 111,222 | 102,533 | 50,920 |
| Total assets | 345,620 | 231,419 | 205,096 | 193,542 | 108,769 |
| Current liabilities | 34,384 | 25,970 | 21,201 | 19,107 | 16,282 |
| Shareholders' equity | 302,414 | 202,074 | 180,541 | 171,986 | 90,655 |

## SHAREHOLDER INFORMATION

**Auditors**
KPMG LLP
Toronto, ON, Canada

**Legal Counsel**
Lang Michener
Toronto, ON, Canada

Torys
Toronto, ON, Canada

**Incorporated**
1971

**Investor Relations**
Reg J. Tiessen
Chief Financial Officer
Leitch Technology Corporation
150 Ferrand Drive
Suite 700
Toronto, ON M3C 3E5
Canada
Tel: (416) 445-9640
Fax: (416) 443-2721

**Stock Exchange**
The Toronto Stock Exchange
(Symbol LTV)

Nasdaq Stock Market
(Symbol LVID)

**Transfer Agent and Shareholder Information**
Computershare Trust Company of Canada
100 University Avenue
Toronto, Ontario M5J 2Y1
Tel: (416) 981-9500
Fax: (416) 981-9800

**Annual Meeting**
September 11, 2001
11:00 a.m.
Imperial Room
Royal York Hotel
100 Front St. West
Toronto, ON M5J 1E3
Canada

## DIRECTORS AND OFFICERS

**DIRECTORS**
Robert A. Lehtonen
Chairman of the Board
Leitch Technology Corporation
Schomberg, ON, Canada

Dr. William F. Baker
President & CEO
WNET (Channel 13)
New York, NY, USA

Albert Gnat
Partner
Lang Michener
Toronto, ON, Canada

Anthony Griffiths
Corporate Director and Independent Consultant
Toronto, ON, Canada

Margita E. White
Corporate Director and Independent Consultant
Washington, DC, USA

Brian Semkiw
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Mississauga, ON, Canada

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Beaconsfield, QC, Canada

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Naples, FL, USA

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Torys
Toronto, ON, Canada

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Leitch Technology Corporation
Toronto, ON, Canada

G. Scott Paterson
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Toronto, ON, Canada

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Gary Clifford
VP Corporate Development

David Toews
VP Finance & Administration

Ed Hacker
VP/General Manager, Semiconductors

Andrew Kun
VP Engineering

Andrea Wynter
VP Human Resources

# Leitch Technology Corporation Offices

**Head Office**
Leitch Technology Corporation
150 Ferrand Drive
Suite 700
Toronto, ON, Canada
M3C 3E5
Tel: (416) 445-9640
Fax: (416) 443-3088
Website:
http://www.leitch.com
E-mail: info@leitch.com

**Subsidiaries**
Leitch Incorporated
920 Corporate Lane
Chesapeake, VA 23320
USA
Tel: (757) 548-2300
Fax: (757) 548-4088

4400 Vanowen Street
Burbank, CA 91505
USA
Tel: (818) 843-7004
Fax: (818) 842-8945

Leitch Europe Limited
Holland Park House
Oldbury
Bracknell, Berkshire
RG12 8TQ UK
Tel: +44 1344-446 000
Fax: +44 1344-446 100

SiliCon Construction Sweden AB
Teknikringen 16
S-583 30 Linköping
Sweden
Tel: +46 13 21 27 21
Fax: +46 13 21 27 29

SiCon Video Corporation
1550 16th Avenue
Building F
2nd Floor
Richmond Hill, ON, Canada
L4B 3K9
Tel: (905) 780-2411
Fax: (905) 780-1374

---

**Sales Offices**
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*Leitch Incorporated Office*

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**Leitch Technology Corporation**
**150 Ferrand Drive, Suite 700**
**Toronto, ON, Canada M3C 3E5**
**Tel: (416) 445-9640**
**Fax: (416) 443-3088**
**Website: http://www.leitch.com**
**E-mail: info@leitch.com**


This annual report contains forward-looking statements that involve risk and uncertainties. These statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "plans," "continue," or the negative thereof or other variations thereon or comparable terminology referring to future events or results. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous factors. These factors include without limitation the timing of acquisitions and expansion opportunities, technological change which may impact the Company's capital expenditures and results of operations, and competitive factors which may alter the timing and amount of the Company's capital expenditures. Any of these factors could cause actual results to vary materially from current results or the Company's currently anticipated future results. The Company wishes to caution readers not to place undue reliance on such forward-looking statements that speak only as of the date made. Additional information concerning factors that cause actual results to materially differ from those in such forward-looking statements is contained in the Company's filings with Canadian and United States securities regulatory authorities.